This is a digital copy of a book that was preserved for generations on library shelves before it was carefully scanned by Google as part of a project to make the world's books discoverable online.

It has survived long enough for the copyright to expire and the book to enter the public domain. A public domain book is one that was never subject to copyright or whose legal copyright term has expired. Whether a book is in the public domain may vary country to country. Public domain books are our gateways to the past, representing a wealth of history, culture and knowledge that's often difficult to discover.

Marks, notations and other marginalia present in the original volume will appear in this file - a reminder of this book's long journey from the publisher to a library and finally to you.

Usage guidelines

Google is proud to partner with libraries to digitize public domain materials and make them widely accessible. Public domain books belong to the public and we are merely their custodians. Nevertheless, this work is expensive, so in order to keep providing this resource, we have taken steps to prevent abuse by commercial parties, including placing technical restrictions on automated querying.

We also ask that you:

+ *Make non-commercial use of the files* We designed Google Book Search for use by individuals, and we request that you use these files for personal, non-commercial purposes.

+ *Refrain from automated querying* Do not send automated queries of any sort to Google's system: If you are conducting research on machine translation, optical character recognition or other areas where access to a large amount of text is helpful, please contact us. We encourage the use of public domain materials for these purposes and may be able to help.

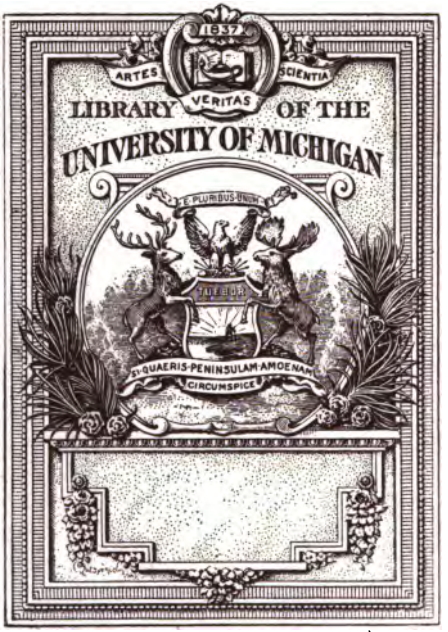
+ *Maintain attribution* The Google "watermark" you see on each file is essential for informing people about this project and helping them find additional materials through Google Book Search. Please do not remove it.

+ *Keep it legal* Whatever your use, remember that you are responsible for ensuring that what you are doing is legal. Do not assume that just because we believe a book is in the public domain for users in the United States, that the work is also in the public domain for users in other countries. Whether a book is still in copyright varies from country to country, and we can't offer guidance on whether any specific use of any specific book is allowed. Please do not assume that a book's appearance in Google Book Search means it can be used in any manner anywhere in the world. Copyright infringement liability can be quite severe.

About Google Book Search

Google's mission is to organize the world's information and to make it universally accessible and useful. Google Book Search helps readers discover the world's books while helping authors and publishers reach new audiences. You can search through the full text of this book on the web at `http://books.google.com/`

51-


1837
ARTES
VERITAS
SCIENTIA
LIBRARY OF THE
UNIVERSITY OF MICHIGAN
E PLURIBUS UNUM
SI QUAERIS PENINSULAM AMOENAM
CIRCUMSPICE

HF
5635
.A233
1907

Hooper and Graham's Series

MODERN
BOOK-KEEPING AND ACCOUNTS

MODERN

MANUALS OF COMMERCE

BY

FREDK. HOOPER and JAMES GRAHAM

1.—**Commercial Education at Home and Abroad.** A Comprehensive Handbook, providing materials for a Scheme of Commercial Education in the United Kingdom, including suggested curricula for all grades of commercial institutions, with illustrations and plans. Price 6/-.

2.—**Home Trade, or Modern Commercial Practice.** Price 2/6.

3.—**Fac-simile Modern Business Forms**:—Book No. 1, The Home Trade. For students' use; providing practice in filling up actual documents. Price 6d.

4.—Teacher's Companion to The Home Trade: Modern Commercial Practice; containing hints as to how to deal with each chapter in the Manual, and concise Answers to the 200 Questions in the Manual. Price 2/6 net

5.—The Beginner's Guide to Office Work (covering the elementary stage of the Syllabus for Modern Commercial Practice). Price 1/-.

6.—**Import and Export Trade, or Modern Commercial Practice.** Price 3/6.

7.—Fac-simile Modern Business Forms:—Book No. 2, Export Trade. Price 1/-.

8.—Fac-simile Modern Business Forms:—Book No. 3, Imports and Ships. Price 9d.

9.—Teacher's Companion to Import and Export Trade. (Ready shortly.)

10.—**Modern Commercial Practice with Correspondence** by F. HEELIS, F.R.G.S., F.Inc.S.T. Part I.—The Home Trade. Price 2/-. Part II.—The Export Trade. (In preparation.)

11.—**Modern Book-keeping and Accounts** by WM. ADGIE, F.C.A. Complete, 5/-, or Part I. Price 1/6. Part II. Price 2/-. Part III. Price 2/6.

12.—Key to Parts I., II., and III. 2/6 net each.

13.—Lithographed Model Worked Exercises, Elementary, Intermediate, and Advanced. 6d.

14.—**Household Accounts** by MISS KATE MANLEY, Organising Secretary Yorkshire Ladies' Council of Education. Part I., Price 1/-. Part II., Price 1/6. Complete in one Vol., Price 2/-.

15.—Loose Sheets—ruled for the week for Class Practice. 6d. per doz.

16.—**Modern Commercial Arithmetic** by G. H. DOUGLAS, M.A. Part I. Price 1/6. Part II. (Ready shortly).

17.—**French Commercial Practice** by JAMES GRAHAM and GEORGE A. S. OLIVER. Part I. Price 2/6. Part II. Price 4/6.

18.—**German Commercial Practice** by JAMES GRAHAM and GEORGE A. S. OLIVER. Part I. Price 2/6. Part II. Price 4/6.

19.—**Spanish Commercial Practice** by JAMES GRAHAM and GEORGE A. S. OLIVER. Part I. Price 2/6. Part II. Price 4/6.

20.—**The Foreign Traders' Correspondence Handbook** by JAMES GRAHAM & GEORGE A. S. OLIVER. Price 3/6.

21.—**The Foreign Traders' Dictionary of Terms and Phrases** by JAMES GRAHAM and GEORGE A. S. OLIVER. Price 3/6.

MACMILLAN & CO. LTD., LONDON.

Modern Book-keeping and Accounts

IN THREE PARTS

BY

WILLIAM ADGIE, F.C.A.

Part I: Elementary

MACMILLAN AND CO., LIMITED
ST. MARTIN'S STREET, LONDON
1907

FIRST EDITION, 1901. REPRINTED WITH CORRECTIONS, 1903, 1905, 1906, 1907.

PRINTED BY CHORLEY AND PICKERSGILL, LTD.,
LEEDS AND LONDON.

PREFACE

The value of a systematic study of Book-keeping and Accounts, as a part of any adequate scheme of Commercial Education, is now generally recognised. The chief difficulty in connection with the conveying of Instruction in this subject is that many Teachers, however skilled in the Art of Teaching, have not that *practical* acquaintance with this particular work which is gained by those who are engaged in the conduct of actual business operations.

During the past few years the writer has conducted Training Classes for Teachers of this subject, under the Technical Instruction Department of the County Council of the West Riding of Yorkshire. In these courses the special object has been to bring the Teacher into closer contact with real commercial transactions, and their proper mode of treatment in Books of Account. The present work, which is prepared from the lectures delivered, with the addition of new matter, is intended chiefly to be used as a Text Book in Schools and Evening Classes. The writer trusts that it may also be of use to the Clerk and to those who are interested in Accounts.

W. A.

LEEDS, *October*, 1901.

177236

INTRODUCTORY NOTE

This book is issued as part of our series of "Modern Manuals of Commerce." Our aim in producing this series is to provide books which while thoroughly educational, if regarded as a mental training of a specialist type, are at the same time practical in character and adapted for the use of commercial students and persons actually engaged in business.

In these manuals details are referred to general principles, and there is throughout a sufficient working of problems to ensure that pupils shall have a *real* grasp of the subject.

In the present instance, the sole intention is to teach modern Book-keeping and Accounts on educational lines and from a business point of view, there being no inclination towards any particular examination. We believe, however, that any student who has systematically worked through this book in its entirety will understand the theory and practice of book-keeping, and should be able to pass *any* examination in the subject, and speedily to qualify to undertake, or effectively supervise, the keeping of the books of account of any business house—the main principles of book-keeping being the same in every business, variation occurring only in matters of detail.

Members of the teaching profession will notice (1) that the exercises are carefully graded so as to introduce the student systematically to the methods of correctly recording commercial operations of gradually increasing complexity, (2) that each exercise is such as will admit of its being completed in class, or in the interval between class meetings, and (3) that the increase in length of exercise is uniform throughout—very important considerations in the class-room.

FREDK. HOOPER,
Secretary, Bradford Chamber of Commerce.

JAMES GRAHAM,
Inspector for Commercial Subjects and Modern Languages to the West Riding County Council.

October, 1901.

INTRODUCTION

Part I. (ELEMENTARY) assumes on the part of the Student *no* knowledge of Books of Account; it proceeds from the explanation of common terms, of the meaning of Transactions, and the simplest forms, to an examination of the Theory of Double Entry, and the practical application thereof in an ordinary set of books, leading up to the preparation of the Balance Sheet.

Part II. (INTERMEDIATE) will include explanations of more complex transactions, including Bills of Exchange, Books of Limited Liability Companies, Partnership Accounts, and further examples of Trial Balances, Balance Sheets, &c., together with illustrations of approved modifications of the Sales, Purchases, and Cash Books, and the sub-division of the Ledger.

Part III. (ADVANCED) will contain special arrangements of the Trading Account, and will deal with Reserve Funds, Sinking Funds, Depreciation, Cost Accounts, Departmental and Branch Accounts, Sectional Balancing, &c., and also examples of specially arranged systems of Book-keeping for various businesses.

The following observations are intended simply to convey to the mind of a *young* Student of this subject some idea of the meaning of ordinary business operations, in order that the general terms and phrases to be met with may not be altogether strange to him.

For the purpose of carrying on any business, a person requires, in addition to the important qualifications of *skill*, *knowledge*, *tact*, and *diligence*—MONEY or property possessing

monetary value and which is called his CAPITAL. It is true that persons have commenced and carried to a successful issue business undertakings without being at the outset possessed of anything beyond the proverbial "half-crown!" In such cases the requisite money (or property) is provided by some other person and the Trader is said to commence with "*borrowed Capital*," but really the Capital belongs to the *lender*, and the Trader's capital is *nil*.

Take the simple example of a person who is the fortunate recipient of a legacy of £1,000, and who, having gained the requisite practical knowledge of some branch of Trade, decides to commence business on his own account. His first step will be to place the money in safety by handing it to a Banker, i.e., he *opens a Banking Account*. Next, he must provide himself with suitable *Business Premises* (Shop, Warehouse, &c.). He will either *purchase* the premises or take them at an annual *Rent*, thereby becoming the *Tenant*. In purchasing the premises he may either pay the whole price at once, *or* he may pay only a portion (say one-third) and *owe* the remainder. In the latter event he will pay an agreed rate of *Interest* on the remainder and will also give as security a document called a *Mortgage Deed*, which has the effect of enabling the person to whom the money is owing to *sell* the property to somebody else (in case the Trader is unable to repay the amount when it is due) and pay himself out of the proceeds.

Immediately the Trader begins to *occupy* the Premises, either as *Owner* or *Tenant*, he becomes liable to the *local authority* (Corporation, or District or Urban Council, &c.) for *Rates*, and as *Owner* he will become also liable for *Taxes*.

He will proceed to equip the premises with the necessary Fixtures, Furniture, &c., to suit his requirements, and he will

then purchase the *commodities* in which he deals, described as *Goods*. As a prudent man he should immediately protect himself against risk of *loss by Fire* by taking out a *Fire Insurance Policy* covering his Stock of Goods, Fixtures, &c. (If he is the Owner of the premises he will insure them also.)

By this time he will probably have found it necessary to engage the regular services of one or more assistants, and he thereby becomes responsible for their *Wages* or *Salaries*. He may call attention to his new venture by means of *advertisements*, and may engage persons, *Travellers*, to call upon probable *customers* with *samples* of the goods which he has for sale.

We are assuming that our Trader is a *Merchant*, i.e., that he buys and sells the goods in the same condition and does not *make* or *manufacture* articles. His trade may be *Wholesale*, i.e., supplying goods only to customers who will sell them again, *or* it may be *Retail*, i.e., supplying goods direct to consumers; his trade may also be of *both* classes.

If he wishes to do business in a distant town, without incurring the expense of sending a Traveller, he may employ an *Agent*—a person residing in that district who will sell goods for him and will charge, by way of remuneration, a percentage upon the total business done—called *Commission*.

Unfortunately it may be that goods are sold to a customer who *fails* to pay for them, and who becomes *insolvent*: in this case the trader will receive his share of whatever the customer's *estate* will realise (*dividend*), and the remainder is a *Bad Debt* or loss.

At the end of six or twelve months the Trader will ascertain his financial position by *Taking Stock* and preparing a *Balance Sheet*, as explained in the following pages. At this date his Capital may have increased as the result of his business

operations, such increase (apart from any *new* capital he may have introduced, or any sums he may have *withdrawn*) being *Nett Profit.* Conversely if his Capital has decreased (apart from sums withdrawn) such decrease is the *Nett Loss* for the period.

By keeping accurate accounts he will be able to ascertain the amount of his *Gross* and *Nett* profit (or loss) and to keep a check upon the working expenses of his business: he can discover if he is selling goods too cheaply, and also judge as to the advisability of launching out into fresh enterprises. Good book-keeping will tend to facilitate the prompt collection of money due to him, and the punctual discharge of his liabilities; the husbanding of his resources and the regulation of his *private* expenditure in due proportion to the *earnings* of his business.

CONTENTS

PAGE

INTRODUCTION ... ... vii.

CHAPTER I

DEFINITIONS AND FORMS 1

SECTION A.—THE THEORY

CHAPTER II

DEFINITIONS—MEANING OF ACCOUNTS—EXAMPLE OF CASH ACCOUNT AND PERSONAL ACCOUNT 12

CHAPTER III

EFFECT OF A TRANSACTION—EXCHANGEABLE VALUE—PRINCIPLE OF DOUBLE ENTRY 17

CHAPTER IV

APPLICATION OF PRINCIPLE OF DOUBLE ENTRY—ORIGINAL ENTRIES—THE JOURNAL 24

CHAPTER V

CLASSIFICATION OF ENTRIES: THE LEDGER 30

CHAPTER VI

BALANCING: THE TRIAL BALANCE 35

CHAPTER VII

PROFIT AND LOSS ACCOUNT—BALANCE SHEET 40

SECTION B.—THE PRACTICE

CHAPTER VIII

PAGE

DIVISION OF ORIGINAL ENTRIES—SALES DAY BOOK—TRANSACTIONS OF JOSEPH MEREDITH 47

CHAPTER IX

PURCHASES DAY BOOK 56

CHAPTER X

RETURNS BOOKS 62

CHAPTER XI

CASH BOOK 67

CHAPTER XII

CASH BOOK *(continued)* 76

CHAPTER XIII

PETTY CASH BOOK 83

CHAPTER XIV

LEDGER 87

CHAPTER XV

CLOSING THE BOOKS OF JOSEPH MEREDITH 93

SUPPLEMENTARY EXERCISES 102a

EXAMINATION QUESTIONS 102*n*

CHAPTER I

Definitions and Forms

The Student is recommended to commence work with Chapter II., and to refer, as occasion may require, to the definitions and examples shown in this Chapter.

Assignment.—A Transfer of Property from one person to another by means of a legal document or Deed. The term usually refers to the case of a person who is unable to pay his debts, and who transfers all his property to his creditors, who are represented by a trustee who distributes the amount realised by the sale of such property.

Audit.—An examination or scrutiny of books of account.

Bad Debt.—Loss incurred by the failure of a person, firm, or Company to pay twenty shillings in the £.

Bankrupt.—An insolvent person whose affairs are wound up in the Bankruptcy Court by legal process.

Book-keeping.—The art of recording pecuniary transactions in a regular and systematic manner; the art of keeping accounts in such a manner as to give a permanent record of business transactions, from which the true state or history of one's pecuniary affairs or mercantile dealings may at any time be ascertained.—*Century Dictionary.*

Broker.—An agent who negotiates on behalf of others the purchase or sale of property of any kind.

Business.—Mercantile pursuits collectively; employments requiring knowledge of accounts and financial methods; the occupation of conducting trade or monetary transactions of any kind.—*Century Dictionary.*

Commission.—Remuneration for services rendered, based upon a percentage of the amount of business transacted.

Consignment.—(1) The placing of goods in the hands of an agent for sale.

(2) The despatch of goods to a Railway Company for delivery to the customer.

Demurrage.—A charge made by a Railway Company for delay of railway wagons beyond a stipulated time. The term is also applied to the charge for detention of a vessel.

Depreciation.—The amount by which the value of an asset has decreased during any given period.

Dividend.—(1) The distribution to shareholders (at the rate of so much per cent. upon the shares) of the profit of a Company.

(2) Interest upon Government Stocks.

(3) The distribution to creditors of the assets of an insolvent person, firm, or Company, at the rate of so much in the £ upon their claims.

Factor.—An agent who has in his possession goods for sale, the property of other persons. The name is frequently used, however, by *merchants* dealing with their own goods.

Firm.—Persons who have entered into partnership with one another are called collectively a "firm."

Goodwill.—The estimated value of the probability of a continuance of dealings with customers of a trader. The value of the right to trade under a particular name or style.

Gross Profit.—The surplus realised by the sale of an article, after deducting the cost price of (*a*) the article, or (*b*) the raw material *and* cost of labour expended to produce the finished product.

Insolvent.—The pecuniary condition of a person whose liabilities exceed his assets.

Lease.—A legal document containing an agreement for the tenancy of land or buildings for a fixed period.

Limited Company.—An association of individuals formed in accordance with the Companies Acts, carrying on business; the liability of each person being limited to the amount unpaid in respect of the shares which he holds.

Nett Profit.—The surplus remaining after deducting from the Gross Profit all expenses of the business.

Premium.—(1) A payment to an Insurance Company for risk undertaken.

(2) A payment to an employer by his pupil.

(3) The excess of the market price of any stocks or shares over their nominal, or *par*, value.

Principal.—A sum of money invested, lent, or borrowed (as distinguished from the interest thereon).

Revenue.—The nett surplus of earnings after deducting all expenditure incurred in connection with the conduct of Trading operations.

Royalty.—(1) The annual sum payable to the owner for the right to extract minerals from his land.

(2) The sum payable to the owner of a patent for permission to make use of his invention.

Voucher.—A document containing evidence of the payment of Cash or of the delivery of goods or property of any kind.

FORM OF ORDER BOOK FOR ORDERS ISSUED.

Telegrams: "Wheels, Chesterfield."
Telephone No. 1234. No. 2345.

ORDER.

From WHEELER & BARNES,
Midland Works, Chesterfield.

Date..... 1901.

Perforation.

To M.....

(Address).....

Please deliver the following goods:—

.....

.....

.....

Signed.....

NOTE:—No Goods to be supplied without a written Order. An Invoice to be sent same day for all goods delivered.

Tissue duplicates of this form are interleaved in the Order Book, and an exact copy of the Order is taken on the duplicate form by using a carbon sheet.

FORM OF DELIVERY BOOK.

Telegrams: "Thistle, Armley."

IRONFOUNDRY DEPARTMENT.

Scotch Foundry, Armley,

Leeds,..... 1901.

Please receive from

WILSONS & MATHIESONS, Limited,

*and forward to.....

.....

Mark.....

Carriage Paid by.....

	Tons.	cwts.	qrs.	lbs.

To..... Signed.....

Received by.....

*This Form may be used both for Goods delivered to the Customer direct, and for Goods sent away by Rail. If the former, strike out the words "and forward to."

INVOICE.

Empress Foundry,
Leeds, 27*th June*, 1901.

Messrs. ALLENBURY, BOUGHTON & Co.,
Contractors, Northampton.

Bought of THE IMPERIAL FOUNDRY Co. LTD.

		Weight.			Price.	£	s.	d.
		c.	q.	lb.				
5	No. 1 Baths, 5 ft. 6in. Japanned Sienna, with overflow				25/- ea.	6	5	0
	Covers and Irons for ditto.					2	0	0
20	Desk Standards, No. 211...	5	3	14	8/- cwt.	2	7	0
12	Round Tables, fitted and bronzed				7/6 ea.	4	10	0
6	No. 70 Kitchen Mantles ...				9/- ea.	2	14	0
2	24 × 30 Skylights				6/- ea.		12	0
3	10 × 10 Gully-grates and Frames		2	7	9/- cwt.		5	1
						18	13	1
	Per Mid. Rly. Carriage Paid: Co.'s Risk							

INVOICE.

The Adelphi,
Liverpool, 28*th June*, 1901.

Messrs. BOLDERWOOD & SONS,
Manufacturing Confectioners,
York.

Bought of GEO. MANNERING & Co.,
Drysalters.

Ten Casks Glucose :—

Gross (lbs.)	Tare (lbs.)
705	46
708	46
695	46
680	45
694	46
686	45
708	45
691	45
694	46
690	46
6951	456
Less Tare 456	

6495 = 57 cwts. 3 qrs. 27 lbs. @ 8/- cwt. £23 3 11
Ex. ship charges, 4/11 ton ... 0 14 3

£23 18 2

INVOICE (BROKER'S).

Mincing Lane,
London, 21*st March*, 1901.

Messrs. EASTMAN & HALL,
Birmingham.

Bought of ROSENCRANTZ & Co.

Payment Cash, 21*st April*, 1901.

Sixty Bags Cocoa :—

	Cwts.	qrs.	lbs.		£	s.	d
20 Bags ex "Sirius"	30	2	9				
	0	3	16	Tare			
Mark :— Don Quixote	29	2	21	@ 70/6 per cwt.	104	12	11
40 Bags ex "Vega"	68	3	27				
	1	3	4	Tare			
Mark :— Filipino.	67	0	23	@ 65/- per cwt.	218	8	4
					323	1	3
				Less discount, 2½%	8	1	6
					314	19	9
				Add Brokerage, 1%... ...	3	4	7
					318	4	4

EXPLANATION.—The 60 Bags Cocoa are bought by the Brokers (R. & Co.) for their customers E. & H., and are charged to the latter at cost price plus 1% for brokerage. The names of the vessels from which the goods are obtained are stated, and the distinctive marks on the bags. The gross weight of cocoa and bags is shown, less the Tare (or weight of bags alone) leaving the nett weight charged for. The discount is allowable in the event of payment being made by 21st April, 1901.

INVOICE.

Wellington Street,
Bristol, 31*st May*, 1901.

Messrs. RAYWOOD & Co. LTD.,
Birmingham.

Bought of PONTIFF BROS.

	Cwt.	qrs.	lbs.	Price.	£	s.	d.
MAL 20 × 28 lbs. Boxes Almonds ... nett	5	0	0	105/-	26	5	0
Ex ss. "Antelope": per Mid. Rly.							

INVOICE.

14, Golden Square,
London, S.E., 15*th June*, 1901.

BRISCOE, NEWTON & Co.

Invoice of 50 bags Sugar.
Shipped per steamer "Bittern" to Hull.
By order and for account of JOSEPH ADAMS & SONS, Leeds.

Contract of 16*th May*, 1901, No. 1789.

50 Bags
Weighing nett cwts 97 2 4
@ 15/- per cwt., f.o.b.... £73 3 0
* *Less* 2 @ 5% 12 2
£72 10 10
Add Insurance, £80 @ 2/6 % 2 0
£72 12 10

* NOTE.—The terms are nett cash in two months, or an allowance of interest for pre-payment at the rate of 5% per annum. The 12s. 2d. represents *two* months' interest at 5% per annum.

DEBIT NOTE.

Date 3*rd Jan.*, 1901.

From BENHAM & BUTLER,
17, Marlborough Street, Leicester.

	£	s.	d.
Please note that we have forwarded this day, per Mid. Rly., 2 Empty Cases, @ 5/-		10	0

Messrs. Maitland, Sons & Co.,
14, Westbourne Grove, London, W.

When Goods (or Empties) are returned a *Debit Note* or "Advice" of the fact should be sent by post same day, by the person returning the Goods.

CREDIT NOTE.

14, Westbourne Grove,
London, W., *4th Jan.*, 1901.

Messrs. BENHAM & BUTLER,
Leicester.

Credited by MAITLAND, SONS & Co.

			£	s.	d.
	2 Cases returned	5/-		10	0

Upon receipt of the Goods returned (or Empties) a *Credit Note* is sent to the person who has returned them.

LEDGER ACCOUNT.

27 *Dr.* BENHAM & BUTLER, 17, Marlborough Road, Leicester. *Cr.* 27

1901				£	s.	d.	1901			£	s.	d.
Jan.	1	To Goods ...	47	56	18	10	Jan.	4	By Empties ...		10	0
,,	4	,,	49	17	13	9	,,	9	,, Returns (4th)	17	13	9
,,	9	,, ...	52	28	14	11	,,	22	,, Empties ...		7	6
,,	12	,, ...	54	35	19	2	,,	25	,, Cash on a/c ...	100	0	0
,,	16	,, ..	57	38	12	9	,,	28	,, Empties ...		3	0
,,	18	,, ...	60	15	19	2	,,	30	,, Returns (16th)	5	14	3
		193 18 7					Feb.	12	,, Cash	63	3	0
,,	21	,, ...	62	24	10	3	,,	12	,, Discount, 3¾%	6	7	1
,,	28	,, ..	69	46	18	7			193 18 7			
,,	30	,, ...	73	18	10	8	,,	14	,, Empties ...		10	0
,,	31	,, ...	74	2	9	4	,,	18	,, ...		4	3
Feb.	2	,, ...	76	14	18	2	,,	20	,, Returns (Jan. 28th) ...	14	15	0
,,	4	,, ...	79	18	19	5						
,,	7	,, ...	82	29	3	1	Mar.	14	,, Cash	210	15	9
,,	9	,, ...	84	32	11	9	,,	14	,, Discount, 3¾%	8	4	3
,,	12	,, ...	88	19	15	4			234 9 3			
,,	19	,, ...	94	26	12	8						
		234 9 3										
,,	22	,, ...	97	13	12	11						
,,	25	,, ...	101	19	10	0						
,,	27	,, ...	102	7	14	2						
,,	28	,, ...	102	12	9	8						

In this example goods sold up to the 20th of each month are to be paid for in the following month, less 3¾% discount. When the two sides agree the totals are inserted "short," and not necessarily upon the same line.

FORM OF RECEIPT BOOK.

Counterfoil.

No. .....

Date, ...1901

Name .....

Address .....

Cash... : : Received by

Dis. ... : :

£

Receipt.

No. .....

14, Westbourne Grove,
London, W., ...1901

Received of .....

the sum of .....Pounds.....Shillings and

..... Pence.

	£	s.	d.
Cash			
Discount ...			

For MAITLAND, SONS & Co.

(Signed), ...

Customers are requested to accept only this Authorised Form of Receipt no other will be recognised.

STATEMENT.

Folio 27. 14, Westbourne Grove,
London, W., 31*st Jan.*, 1901.

Messrs. BENHAM & BUTLER,
17, Marlborough Road, Leicester.

Dr. to MAITLAND, SONS & Co.

1901			£	s.	d.	£	s.	d.
Jan.	1	To Goods				56	18	10
	4	,, ,, ...				17	13	9
	9	,, ,, ...				28	14	11
	12	,, ,, ...				35	19	2
	16	,, ,, ...				38	12	9
	18	,, ,, ...				15	19	2
						193	18	7
		CREDITS.						
	4	By Empties		10	0			
	9	,, Returns	17	13	9			
	22	,, Empties		7	6			
	28	,, ,, ...		3	0			
	30	,, Returns	5	14	3	24	8	6
						169	10	1
	25	Cash on A/c.				100	0	0
						69	10	1

This Statement is prepared from the Ledger up to the 20th of the month (for Goods sold), and showing all credits up to 31st of the month.

SECTION A.—THE THEORY

CHAPTER II

DEFINITIONS—MEANING OF ACCOUNTS—EXAMPLE OF CASH ACCOUNT AND PERSONAL ACCOUNT

All business consists of exchanging one kind of property for another, including all articles which possess any exchangeable value.

A *Transaction* is the name given to any such act of exchange.

An *Account* is a record of one or more transactions, stated in such a manner as to exhibit the true effect of the transactions.

Book-keeping is the art of arranging accounts in such a manner as to show the true result of all similar transactions, and also to show the true result to the trader of *all his transactions*, whatever their nature may be.

Asset is the term used to denote property belonging to the trader, and employed in connection with commercial transactions, and includes Land, Buildings, Machinery, Furniture, Materials, Goods, Ships, Horses, Carts, Money in hand, Money owing to the trader by any person, Investments in Shares or Stocks, Patent rights, &c., &c.

Liability is the term used to denote any sum which is owing by the trader to another person.

Capital is the amount by which the total assets exceed the total liabilities.

Deficiency is the amount by which the total liabilities exceed the total assets.

Profit is the amount by which a trader's capital is *increased* as the result of a transaction or series of transactions with other persons during a given period.

Loss is the amount by which a trader's capital is *decreased* as the result of a transaction or series of transactions with other persons during a given period.

We will now take a few transactions, and see how they should be arranged in the form of an Account. The following transactions consist of the receipt and payment of cash, and the trader wishes to keep a record of the *changes* that take place in the "cash" portion of his assets.

1901		£	s.	d.
Jan. 1	The trader receives cash for goods sold	15	0	0
,, 3	He pays Wm. Arnold for goods bought	6	0	0
,, 4	He pays for stamps		10	0
,, 5	He receives cash for goods sold	14	0	0
,, 5	He pays wages	7	0	0
,, 5	He pays into his bank	10	0	0

CASH ACCOUNT.

1901.	*Receipts.*	£	s.	d.	1901.	*Payments.*	£	s.	d.
Jan. 1	Goods sold ...	15	0	0	Jan. 3	Wm. Arnold— goods ...	6	0	0
5	,, ,, ...	14	0	0	4	Stamps ...		10	0
					5	Wages	7	0	0
					,,	Bank	10	0	0
							23	10	0
					5	Cash in hand ...	5	10	0
		£29	0	0			£29	0	0

The above Cash Account shows the trader that he has received £29 and paid £23 10s. Therefore the difference between these two sums, viz., £5 10s., must be the amount of money he has in hand on the 5th January, assuming that he has recorded *all* his cash transactions. This difference is first added to the smaller or "payments" side of the account in order to prove that the two sides of the account are now equal; the totals are inserted, and the "difference" or cash in hand will be entered again on the receipts side of the new Cash Account, signifying that the cash has received, and is responsible for, this amount, £5 10s., until further transactions take place. (See p. 14.)

In using a pair of scales for weighing purposes, the two sides are said to "balance" when equal weights are placed on each side. In the above account, after inserting on the payments side the

cash in hand, £5 10s., the two sides are said to "balance" each other, and the amount, £5 10s., may be described as the amount required to balance the account, or, shorter, the "balance" of the account.

CASH ACCOUNT.

1901.	*Receipts.*	£	*s.*	*d.*	1901.	*Payments.*	£	*s.*	*d.*
Jan. 1	Goods sold ...	15	0	0	Jan. 3	Wm. Arnold— goods ...	6	0	0
5	,, ,, ...	14	0	0	4	Stamps ...		10	0
					5	Wages	7	0	0
					,,	Bank	10	0	0
							23	10	0
					5	Balance carried down ...	5	10	0
		29	0	0			£29	0	0
,, 5	Balance brought down ...	£5	10	0					

In the last example the account employed showed to the trader the changes in one portion of his assets, viz., cash. In the following example we shall see the effect of a few transactions, between the trader and another person (Wm. Arnold), upon the relative positions of the trader and Wm. Arnold.

1901.		£	*s.*	*d.*
Jan. 1	The trader buys goods from Wm. Arnold, but does not pay for them	20	0	0
,, 3	He pays cash to Wm. Arnold	6	0	0
,, 10	He pays cash to Wm. Arnold	10	0	0
,, 12	Wm. Arnold buys goods from the trader, but does not pay for them	15	0	0
,, 14	Wm. Arnold pays cash to the trader	14	0	0

It will be observed that the above transactions may be divided into two kinds—

(1) In which the trader receives property from Wm. Arnold.

(2) In which Wm. Arnold receives property from the trader.

(It may be that in these examples, viewed separately, the *act of exchange* does not seem to be accomplished—e.g., on January 1st the trader receives goods, but does not deliver anything in return—in reality, he incurs liability to carry out his part of the transaction, and the completion of the "exchange" is only postponed.)

WM. ARNOLD'S ACCOUNT WITH THE TRADER.

		£	s.	d.			£	s.	d.
Jan. 3	Cash	6	0	0	Jan. 1	Goods	20	0	0
10	,, ...	10	0	0	14	Cash	14	0	0
12	Goods	15	0	0					
		31	0	0					
14	Balance carried down ...	3	0	0					
		£34	0	0			34	0	0
					14	Balance brought down ...	£3	0	0

In the above account, as in example 1, the items of property received *by Wm. Arnold* are shewn on the left-hand side, and the items received *from him* on the right-hand side. The difference between the two, £3, shews that the trader has received from Wm. Arnold goods and cash to the amount of £3 more than Wm. Arnold has received from him. The relative positions of the two parties now is that the trader is indebted to Wm. Arnold to the extent of £3.

The exercises should be worked out on ruled paper, following closely the style of the examples given, and with due regard to neatness.

EXERCISE 1.

Prepare a Cash Account, showing the balance at 31st January, from tne following particulars of Joseph Barrow's transactions:—

1901.		£	s.	d.
Jan. 3	Received cash for goods	146	15	9
,, 5	Paid Wm. Yates	132	17	6
,, 8	Received from Thos. Watson	117	17	1
,, 14	Sold goods for cash	120	0	0
,, 16	Paid to bank	200	0	0
,, 19	Paid Benjm. Booth & Sons	1	13	2
,, 23	Paid rent	50	0	0
,, 24	Received from Chas. Dyson	19	11	8
,, 27	Paid Shaw & Co. Ltd.	15	10	6
,, 29	Sold goods for cash	36	10	0
,, 31	Paid wages	15	0	0

EXERCISE 2.

Prepare Chas. Field's account with Fredk. Hall from the following transactions, showing balance, if any, due to, or by, Chas. Field:—

1901.		£	s.	d.
Jan. 2	Hall sells goods to Field (not paid for) ...	15	14	6
,, 3	Field pays cash	10	0	0
,, 5	Hall sells goods to Field (not paid for) ...	25	16	3
,, 7	Field sells goods to Hall (not paid for) ...	17	15	5
,, 11	Field pays cash	15	10	0
,, 14	Hall buys goods from Field (not paid for)	36	14	8
,, 15	Hall pays cash	30	0	0
,, 18	Field buys goods from Hall (not paid for)	28	8	2
,, 28	Hall receives cash from Field	22	0	0
,, 28	Hall sells goods to Field (not paid for) ...	10	13	10
,, 31	Field pays cash	5	0	0

CHAPTER III

Effect of a Transaction—Exchangeable Value—Principle of Double Entry

It is important that the student should from the beginning of his work be guided by an appreciation of the *fact* upon which the only principle of good book-keeping is based, and that he should not be content to follow mere forms and rules as a matter of routine. It is only by adopting the former course that he can place himself in a position to deal intelligently with all transactions which may occur. Therefore the principle or theory of Double Entry will be explained at this stage.

In the preceding chapter a transaction is defined as being "any act of exchange of value;" we must now examine this definition and obtain a fuller idea of its meaning. Exchangeable value in this connection must be understood to include:—

Class 1.—Articles or property of an actual tangible nature, such as Land, Buildings, Machinery, Raw Materials, Manufactured Goods, Ships, Shares or Stocks, Horses, Cash, &c., &c.

Class 2.—The value of the *use* of any article or property for a limited period. Examples:—A trader becomes tenant of a factory at an annual rent of £200. In this case the "rent" is the term used to express the value of the use of the property. A trader borrows £500 from a banker at 5% per annum interest. In this case the "interest" is the term used to express the value of the use of the money.

Class 3.—Labour or services rendered by one person to another. Examples:—A manufacturer employs a workman at weekly wages; in this case the "wages" is the term used to express the value of the use of the workman's time, skill, and energy. A manufacturer in Leeds employs an agent in London to sell his manufactured products, and pays the agent a remuneration, called a "commission." In this case the "commission" is the term used to express the value of the services rendered by the agent.

The following are examples of transactions involving exchanges of value belonging to each of these classes:—

A. John Green sells goods, £50, for cash.

This is an exchange of one article of an actual tangible nature (Class 1) for another article of a tangible nature (Class 1). Effect: J. G.'s *cash* is increased £50 and his *goods* are decreased £50.

B. John Green pays £20 for rent of warehouse.

This is an exchange of an article (Class 1), cash, for value (Class 2), £20, viz., use of warehouse. Effect: J. G. receives use of warehouse, value described as "rent," and his cash is decreased £20.

C. John Green pays his workman's wages, £5.

This is an exchange of an article (Class 1), viz., cash, for value (Class 3), viz., use of workman's time, labour, &c. Effect: J. G. receives use of workman's time and labour, value described as wages, £5, and his cash is decreased £5.

D. John Green lends a room in his warehouse for a week, and receives £1 10s. for the loan.

This is an exchange of value (Class 2), viz., use of room, for an article (Class 1), viz., cash. Effect: J. G.'s cash is increased £1 10s., and he parts with the use of his room, value (called rent) £1 10s.

E. John Green borrows a horse and cart for a week from Geo. Bushe, and in return he obtains a customer who will buy certain goods from Geo. Bushe. This is an exchange of value (Class 3), viz., services rendered by Green for value (Class 2), viz., use of horse and cart. Effect: J. G. receives the use of horse and cart, value (called horse-hire) £1, and he parts with the benefit of the services, value (called commission) £1.

F. John Green buys goods from Chas. Ward, £10, and does not pay for them. This is a transaction in which the completion of the exchange is postponed. Effect: J. G.'s goods are increased £10, and Chas. Ward allows the payment to be deferred. Ward "trusts" Green, "believes" that he will pay for the goods, and is therefore willing to remain his "creditor" (credere: to believe) until the equivalent value is paid by Green. Conversely, as long as Green owes the money, Green is "indebted" to, or is "debtor" to, Ward (debere: to owe).

G. John Green sells goods to Thos. Hardy, £25, and Hardy does not pay for them.

This is a transaction in which the completion of the exchange is postponed. Effect: Green's goods are decreased £25, and he allows the payment to be deferred; he "trusts" Hardy, who becomes "debtor" to Green until the equivalent cash is paid to Green. Conversely, as long as Hardy owes the money, Green remains his "creditor."

By careful examination of the above transactions the student will observe that in every instance *two results* follow, or, the effect of each transaction is *two-fold.* In each of the examples,

A, *B*, *C*, *D*, *E*, it is clear that *value is received and value is parted with* to equal amounts. In the examples *F* and *G* we still find two results—

F.—Green receives value and Ward becomes his creditor.

G.—Hardy becomes his debtor and Green parts with value.

We therefore find that *all* the transactions have the following results :—

Value is received by Green or A person becomes debtor to Green } and { Value is parted with by Green or A person becomes Creditor of Green

Let us arrange the results of the foregoing transactions, collecting the records into the form of accounts.

It is clear that each transaction affects the trader John Green, therefore we will first deal with

JOHN GREEN'S ACCOUNT.

Value received.	£	*s.*	*d.*	*Value parted with.*	£	*s.*	*d.*
A. Cash (from goods) ...	50	0	0	*A*. Goods (to cash) ...	50	0	0
B. Rent (from cash) ...	20	0	0	*B*. Cash (to rent) ...	20	0	0
C. Wages (from cash) ...	5	0	0	*C*. Cash (to wages) ...	5	0	0
D. Cash (from rent) ...	1	10	0	*D*. Rent (to cash) ...	1	10	0
E. Horse-hire	1	0	0	*E*. Commission	1	0	0
F. Goods from Ward ...	10	0	0	*F*.		—	
G.		—		*G*. Goods to Hardy ...	25	0	0
	£87	10	0		£102	10	0

CHAS. WARD'S ACCOUNT.

Value received.	£	*s.*	*d.*	*Value parted with.*	£	*s.*	*d.*
F.		—		Goods ... ... (Ward is creditor.)	10	0	0

THOS. HARDY'S ACCOUNT.

Value received.	£	*s.*	*d.*	*Value parted with.*	£	*s.*	*d.*
G. Goods ... ... (Hardy is debtor.)	25	0	0	... ...		—	

The total money value represented by the seven transactions is £112 10s. 0d., and we see that this sum has been stated in these three accounts *twice*, or that value to the extent of £112 10s. 0d. has been *received*, and an equal value *parted with*.

We have now recorded John Green's transactions according to the double entry principle, which is nothing else than the recognition of the fact that *each transaction has a two-fold effect.*

John Green's account informs us that he has received value to the amount of £5 more than he has parted with. This information, though perfectly correct, is not of itself sufficient. An inspection of the account will quickly show that the value received is made up partly by real tangible property, such as cash and goods, but that no tangible assets exist to represent the other values, rent, wages, and horse-hire. The values parted with, are also seen to consist partly of actual property, goods, and cash, but that no tangible property has been parted with as representing rent or commission. It is necessary, therefore, that this account shall be divided up, not only to distinguish between the various kinds of property received or parted with, but also to show the items for which *no actual property* has been received or parted with. We shall call the latter "*nominal values.*"

JOHN GREEN'S CASH ACCOUNT.

Value received.	£	*s.*	*d.*	*Value parted with.*	£	*s.*	*d.*
In exchange for goods ...	50	0	0	In exchange for rent ...	20	0	0
,, ,, rent ...	1	10	0	,, ,, wages ...	5	0	0
	£51	10	0		£25	0	0

JOHN GREEN'S GOODS ACCOUNT.

Value received.	£	*s.*	*d.*	*Value parted with.*	£	*s.*	*d.*
From Ward	10	0	0	In exchange for cash ...	50	0	0
				To Hardy	25	0	0
					£75	0	0

JOHN GREEN'S ACCOUNT OF NOMINAL VALUES RECEIVED AND PARTED WITH.

Value received.	£	*s.*	*d.*	*Value parted with.*	£	*s.*	*d.*
Rent	20	0	0	Rent	1	10	0
Wages	5	0	0	Commission	1	0	0
Horse-hire	1	0	0				
	£26	0	0		£2	10	0

The first two accounts represent transactions of the different portions of the property which John Green is employing in his business. The third account represents the transactions in which only a nominal (not an actual) value is received or parted with by John Green.

The accounts of actual property, such as cash and goods, are *real accounts.*

The accounts of values which are represented by no tangible asset, such as rent, wages, &c., are *nominal accounts.*

The accounts of transactions with persons are *personal accounts.*

Let us now go back a little and suppose that John Green commenced his business with a stock of goods value £40. In order to grasp the position we must look upon John Green's business as an affair *quite apart from John Green himself.* John Green might carry on a business in Leeds, and he might be a partner in two or three other distinct businesses in Birmingham, London, &c. In the latter case it is easy to think of him as a person *apart* from the Birmingham or London firm; so we must think of him as a person distinct from the business which belongs to him, even though it may be *the only* business in which he is interested.

When Green commences this business the first thing that happens is this:—He entrusts to it his stock of goods, £40. The business does not pay him for these goods. The business has no cash or property of any kind at the moment of its commencement, save the stock, £40, which it receives. What happened in the case of the transaction with Chas. Ward happens here: John Green "trusts" his business with the stock, he becomes the "creditor" of the business, and the "goods" portion of the business becomes indebted to him, or "debtor" for the value of stock received, £40. When the Goods Account parts with some of its goods, and another portion of the business receives the value thereof, such as Cash Account, £50, of course the Goods Account is no longer indebted for that sum, and the entry now made in the Goods Account is a *creditor* entry, goods becoming "creditor" of another portion of the property, viz., *Cash Account.* Conversely *Cash Account*, receiving value from the Goods Account, is indebted, or *debtor*, to that account for such value.

Also when the Cash Account parts with value, the equivalent being received by the business in a nominal shape, such as rent or wages, the *Nominal Account* is indebted to the Cash Account (or debtor) for such value, and the Cash Account must be credited, and becomes creditor for the amount which it pays.

When the Cash Account receives value, the equivalent being a nominal value (e.g., rent), given out by the business, then the Cash Account is indebted (debtor) to the Nominal Account for such value, and the Nominal Account having parted with value must be credited, and becomes creditor.

We have already seen that each transaction has a two-fold effect; we may now put this in the form of a statement of the Principle of Double Entry :—

In each transaction an account (personal, real, or nominal) is debtor to an account (personal, real, or nominal), which thereby becomes creditor, for equal amounts.

The following is a statement of the transactions of John Green, showing which accounts are affected in each case :—

Goods Account—debtor, £40. To John Green—creditor, £40.
Stock at commencement.

Cash Account—debtor, £50. To Goods Account—creditor, £50.
Goods sold for cash.

Nominal Account—debtor, £20. To Cash Account—creditor, £20.
Cash payment for rent.

Nominal Account—debtor, £5. To Cash Account—creditor, £5.
Workman's wages paid.

Cash Account—debtor, £1 10s. To Nominal Account—creditor,
Cash received for rent. £1 10s.

Nominal Account—debtor, £1. To Nominal Account—£1.
Horse-hire exchanged for commission.

Goods Account—debtor, £10. To Chas. Ward, £10.
Goods bought on credit.

Thomas Hardy—debtor, £25. To Goods Account, £25.
Goods sold on credit.

Write out a statement of the following transactions, showing which accounts are debtor and creditor respectively, as on page 22 :—

EXERCISE 3.

1901.		£	s.	d.
Feb. 1	Chas. Hill commences business with cash ...	100	0	0
,, 4	He buys goods for cash	44	16	8
,, 7	He sells goods to A. Shaw & Co.	17	14	3
,, 8	He buys goods from Thos. Thorner	36	17	11
,, 11	He receives cash from A. Shaw & Co. ...	10	0	0
,, 16	He sells goods for cash	11	16	11
,, 22	He buys goods for cash	20	0	0
,, 25	He pays cash to Thos. Thorner	25	0	0
,, 26	He buys goods from Simpson Bros.	17	13	2
,, 28	He pays cash for wages	7	0	0
,, 28	He pays cash for rent	5	10	0
,, 28	He pays cash to B. Craig for selling goods ...	2	0	0

EXERCISE 4.

1901.		£	s.	d.
Mar. 1	Henry Bourne commences business with a stock of goods	50	0	0
	and cash	20	0	0
,, 2	He sells goods to Stevenson & Son	10	14	9
,, 5	He buys goods from Fletcher & Co.	15	10	6
,, 7	He sells goods for cash	4	10	3
,, 9	He pays cash to Fletcher & Co.	15	10	6
,, 11	He receives cash from Stevenson & Son ...	7	0	0
,, 12	He lends to Jonas Sedgwick cash	2	0	0
,, 14	He buys goods for cash	4	10	0
,, 16	He pays cash—wages	2	14	6
,, 19	He buys goods from Stevenson & Son ...	4	11	3
,, 23	He sells goods for cash	6	10	6
,, 27	Jonas Sedgwick repays cash	2	0	0
,, 30	He pays cash for rent	5	0	0

CHAPTER IV

Application of Principle of Double Entry—Original Entries—The Journal

Having obtained from a study of the two preceding chapters some insight into the meaning and effect of business transactions, the student now proceeds to make acquaintance with the books in which transactions are to be recorded.

The term "Double Entry" Book-keeping is rather a misleading one, but having attained such wide recognition and adoption, it must be of necessity retained in default of a better one. It is misleading in the sense that it conveys a *wrong idea*, an idea of a *double entering*, or a *duplication* of work. In former times, and in the instructions given by old text-books, this double entering was common enough, but it has now been superseded by the improvements which have taken place in book-keeping in modern times. But though the older and more cumbrous methods of Double Entry have been abandoned, the *principle* remains, and must be adopted in all book-keeping which can claim to be complete. The student must remember that as businesses differ from each other so vastly both in their general description, character, and requirements, and in their number of transactions, it is impossible to provide *a system* or set of books which will be the *most* suitable to *every* kind of business, and which will exactly meet *all* the needs of *all* commercial undertakings. A system of books used in a newspaper office would to a very large extent be quite unsuited to an ironfounder, and a machine-maker would require a system very different from that of a corn factor. Whilst this is true, all good book-keeping must have the double entry principle as its foundation, and for that reason in every business, of whatever character or size, one *book* is essential, the *Ledger*. This is the book which contains *all* the accounts, showing the debtor and creditor results of every transaction. If it is possible in a business to reduce the number of books to one, that one must be the Ledger. In only a very limited number of cases

can this be done, however. It must be understood that we are dealing at present with the ordinary general run of businesses, and not with special cases.

It is of the greatest importance that a record should be made of each transaction immediately it occurs. Obviously, if the making of the record is postponed the chances of error are considerably increased.

The book in which this first record is made is technically described as a "Book of Original Entry." From this book the accounts are properly entered in the Ledger, it being as a general rule inconvenient to make the original entry directly in the Ledger itself.

The old merchants and traders used to make an entry of all their dealings, of all kinds, at the time when the transaction took place, in a book, which then became a chronological history of all their business doings. It was a rough sort of book, kept lying at hand ready for the jotting down of the dealings as they occurred, and so acquired the name of "Waste Book." It has now almost entirely dropped out of use, and we shall not require its assistance. It very frequently happens that transactions of different kinds are taking place at the same moment, such as buying and selling goods, receiving and paying cash, &c., &c., and this renders it necessary to divide the Book of Original Entry into two or more separate books, each containing the original entries of distinct kinds of transactions, buying, selling, &c., &c. But at this early stage we will assume that *all* the original entries can be made conveniently in one book, and the technical name of it is the *Journal* (diurnalia: daily records).

TRANSACTION.

1901.		£	*s.*	*d.*
April 3	Joseph Shaw buys goods from Wm. Thompson ...	10	0	0

As we have seen on page 19, this means that in Shaw's accounts the Goods account is *debtor* to Wm. Thompson, *creditor*, for £10 for goods bought of him.

The original entry to be made of this transaction is simply the above statement, written in the Journal in the following form:—

1901.			£	*s.*	*d.*	£	*s.*	*d.*
April 3	Goods Account	*Dr.*	10	0	0			
	To Wm. Thompson*					10	0	0
	for goods bought of him.							

(* The word "creditor" is omitted as unnecessary.)

Before making a Journal entry the student should *think out* the *meaning of* the transaction, asking himself "who," "which person" or "which account," has *received* any value, to find the debtor, and "which person" or "which account" has *parted with* any value, to find the creditor.

The following are simple examples of Journal entries:—

JOURNAL.

Date.		Entry.	Lgr. Folio	Dr. Amounts. £	s.	d.	Cr. Amounts. £	s.	d.
1901									
Apl.	3	Goods Account *Dr.*		10	0	0			
		To Wm. Thompson ...					10	0	0
		For Goods bought of him							
	4	Robert Elgie & Co. *Dr.*		25	14	9			
		To Goods Account ...					25	14	9
		For Goods sold to them							
	5	Wm. Thompson *Dr.*		5	10	0			
		To Cash Account					5	10	0
		For Cash paid to him							
	6	Cash Account *Dr.*		15	0	0			
		To Robert Elgie & Co. ...					15	0	0
		For cash paid by them							
				56	4	9	56	4	9

It will be observed that the Journal entry is not a mere *memorandum* of the transactions, but it is a *statement of the two-fold effect*, showing clearly which account is debtor and which account is creditor.

The Journal contains a column for the date (month and day), a column for the entry, a column for the Ledger page or folio containing the account into which each item is to be gathered or "posted" (this will be explained later), a money column for the debtor amount, a money column for the creditor amount. The operation of making an entry in the Journal is called "journalising." The points to be noticed in connection with correct journalising are:—

The account which is to be debtor is *to be stated first*, followed by the abbreviation "Dr." at the end of the line.

The account which is to be creditor is to be stated immediately afterwards, prefixed by the word "To."

Then follows the explanation of the entry, with full details if necessary. This explanation should show what the entry means, without necessity for reference to any other source of information. The term used to denote this explanation is "narration."

Rule a line across the entry column, so as to distinctly separate the entries from each other.

Add up each money column at the foot of the page; the Dr. and Cr. totals should agree.

The Journal entries of the following transactions of David Newman are shown on page 28:—

1901.		£	s.	d.
March 1	David Newman commenced business with cash	500	0	0
,, 4	Bought 50 tons iron at £6 from Sharp & Sharp	300	0	0
,, 5	Sold 10 tons @ £6 10s. for cash	65	0	0
,, 8	Sold to Richards & Co. 30 tons @ £6 11s. ...	196	10	0
,, 11	Paid Sharp & Sharp cash	300	0	0
,, 13	Bought for cash 10 tons @ £5 18s.	59	0	0
,, 18	Sold Waring & Son 20 tons @ £6 6s.	126	0	0
,, 28	David Newman withdrew from business, cash...	20	0	0
,, 30	Paid for rent, cash	10	0	0
,, 30	Paid for wages	5	0	0
		£1,581	10	0

NOTE.—The transaction on March 28th means that David Newman receives cash from the business's cash, and its effect is the reverse of the transaction on March 1st. David Newman *receives*, and is debtor £20; Cash Account *pays*, and is creditor £20.

On March 30th there are two payments of cash for rent and wages. In the previous chapter these items were placed together in one Nominal Account; instead of doing so, in practice a separate Nominal Account is opened for each class of expenditure representing no actual tangible (or real) value, and headed "Rent Account," "Wages Account," or whatever the nature of the item may be.

When, as in this case, there are two or more items debtor to the same account, the entry may be made as shown in order to save space.

JOURNAL.

1901				£	s.	d.	£	s.	d.
Mar.	1	Cash Account. *Dr.*	1	500	0	0			
		To David Newman	5				500	0	0
		For Cash brought into Business by him at commencement							
	4	Goods Account. *Dr.*	2	300	0	0			
		To Sharp & Sharp	6				300	0	0
		For 50 tons Iron @ £6, bought of them							
	5	Cash Account. *Dr.*	1	65	0	0			
		To Goods Account	2				65	0	0
		For 10 tons Iron @ £6 10s., sold for Cash							
	8	Richards & Co. *Dr.*	7	196	10	0			
		To Goods Account	2				196	10	0
		For 30 tons Iron @ £6 11s., sold to them							
	11	Sharp & Sharp. *Dr.*	6	300	0	0			
		To Cash Account	1				300	0	0
		For Cash paid to them							
	13	Goods Account. *Dr.*	2	59	0	0			
		To Cash Account	1				59	0	0
		For 10 tons Iron @ £5 18s., bought for Cash							
	15	Waring & Son. *Dr.*	8	126	0	0			
		To Goods Account	2				126	0	0
		For 20 tons Iron @ £6 6s., sold to them							
	28	David Newman. *Dr.*	5	20	0	0			
		To Cash Account	1				20	0	0
		For Cash paid to him							
	30	Rent Account. *Dr.*	3	10	0	0			
		Wages Account. ,,	4	5	0	0			
		To Cash Account	1				15	0	0
		For Cash paid							
				1581	10	0	1581	10	0

EXERCISE 5.

Journalise the following transactions of Robert Gibson.

1901.		£	s.	d.
March 1	Robert Gibson commences business with goods and cash	153	19	6
		72	14	8
,, 5	Bought goods for cash	38	10	0
,, 8	Sold goods to the Stores, Ltd.	99	15	3
,, 12	Sold goods for cash	15	13	2
,, 14	Lent George Birdsall	5	0	0
,, 16	Bought stationery (for office) for cash	2	10	0
,, 18	Sold goods to Alfred Owen & Sons	10	11	6
,, 20	Bought goods from Phillips & Co.	49	10	8
,, 22	Bought goods from the Stores, Ltd.	3	10	8
,, 22	Bought goods for cash	4	0	0
,, 25	Sold goods to Watson & James	59	16	10
,, 25	Sold goods for cash	3	15	0
,, 28	Paid cash for advertising	2	0	0
,, 29	Received from Geo. Birdsall, goods	4	10	0
,, 29	,, ,, cash		10	0
,, 30	Paid rent, £5, and wages, £6	11	0	0

EXERCISE 6.

Journalise the following transactions of Benjamin Holdsworth, make the necessary calculations, and state the money values in each case:—

1901.		£	s.	d.
March 1	Benjamin Holdsworth commenced business with 1,200 yards cloth, value 3/- per yard, and cash, £25.			
,, 6	Sold 100 yds. cloth @ 3/6 per yd. for cash.			
,, 9	Sold Williamson & Co. 250 yds. cloth @ 3/4.			
,, 12	Paid for trade expenses	5	0	0
,, 15	Received from Williamson & Co., cash ...	20	0	0
,, 18	Sold J. Innes & Co. 400 yds. cloth @ 3/3.			
,, 23	Benjamin Holdsworth withdraws cash ...	10	0	0
,, 25	Bought of the Manufacturing Co. Ltd. 60 yds. @ 2/9.			
,, 27	Paid for rent	3	10	0
,, 29	Received from J. Innes & Co., cash	65	0	0
,, 30	Benjamin Holdsworth takes out of business stock, 10 yds. cloth @ 3/-.			

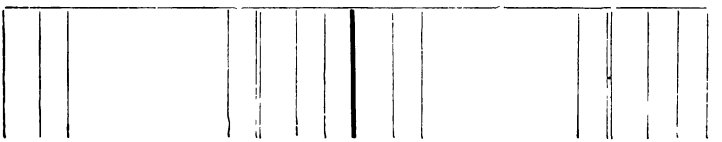
CHAPTER V

Classification of Entries—The Ledger

We have now in our Journal the original records of transactions stated in the order in which the transactions occurred. The next step is to collect those records into *Accounts* which shall show the true effect of the transactions, or, in other words, to *classify* the records of the transactions. The Ledger is the book in which the "collecting" or "classifying" is done.

The Ledger is ruled, for ordinary use, as follows:—

FORM OF LEDGER.



This page is divided perpendicularly into two equal divisions, called respectively the debit (or debtor) side, on the left hand, and credit (or creditor) side, on the right hand.

The debit side is divided into spaces for—

Date (month and day).
Entry.
Page or folio of Journal where the original entry is to be found.
Amount.

The credit is divided into spaces for—

Date (month and day).
Entry.
Page or folio of Journal where the original entry is to be found.
Amount.

Each side of the Ledger should be "paged" with the same number (1—1, 2—2, &c.).

"To post" means to write an entry of a transaction in the Ledger. Ledger entries are often referred to as "postings."

The Ledger must contain all the accounts of the business, and these accounts are as stated on page 21, divisible into three groups, viz. :—

*Real Accounts.
*Nominal Accounts.
Personal Accounts.

We will deal with a Real Account, viz., Cash Account as an example of posting Ledger Accounts.

Turning to the Journal entries on page 28, representing the transactions of David Newman, we find the first account referred to is "Cash." We will now "open" a Cash Account in the Ledger, and "post" all the cash items.

CASH ACCOUNT.

1	Dr.									Cr.				1
1901				£	s.	d.	1901				£	s.	d.	
Mch.	1	To David Newman	1	500	0	0	Mch.	11	By Sharp and Sharp	1	300	0	0	
	5	,, Goods ...	1	65	0	0		13	,, Goods ...	1	59	0	0	
								28	,, David Newman	1	20	0	0	
								30	,, Rent ...	1	10	0	0	
								30	,, Wages ...	1	5	0	0	
								30	,, Balance carried down ...		171	0	0	
				565	0	0					565	0	0	
Mch.	30	To Balance brought down		171	0	0								

The abbreviations Dr. and Cr. on the debit and credit sides, coupled with the words To and By, are used to indicate that the account is *indebted to* the accounts from which it receives value, and *credited by* the accounts to which it delivers value.

All the transactions in which cash is debtor are entered or posted from the *first* (or debtor) money column in the Journal to the left-hand side, or debit side, of the Cash Account in the Ledger, the page (folio) of the Journal—viz., 1—being written in

*Real Accounts and Nominal Accounts may also be described as "Impersonal Accounts."

the space provided for that purpose in the Ledger. Conversely, Cash Account being on page 1 in the Ledger, that page (folio) is written in the space provided in the Journal. This inserting of folios should not be neglected; not only does it facilitate reference from one book to another, but it helps to prevent omissions in posting.

All the items in which "Cash" is creditor are *entered* or *posted* from the second or credit money column in the Journal to the right-hand side or credit side of the Cash Account in the Ledger, the Journal folio being written in the Ledger, and the Ledger folio being written in the Journal, opposite every item.

The Cash Account is added up and the balance, as explained in Chapter II., is carried down.

The transverse line is drawn across the blank space in the debtor side of the account in order to prevent any possibility of a future entry being made in error in that space, *after* the total is inserted.

We have now in this account a clear statement of all transactions in cash, showing that the business should possess at the end of the month a sum of £171 in cash.

The Ledger now given contains, first, the remaining Real Account—viz., Goods; secondly, the Nominal Accounts—Rent and Wages; thirdly, the Personal Accounts—David Newman, Sharp & Sharp, Richards & Co., Waring & Son.

2 — *Dr.* — GOODS ACCOUNT. — *Cr.* — 2

19	01		J	£	s.	d.	19	01		J	£	s.	d.
Mar.	4	To Sharp & Sharp	1	300	0	0	Mar.	5	By Cash	1	65	0	0
	13	,, Cash	1	59	0	0		8	,, Richards & Co.	1	196	10	0
								15	,, Waring & Son	1	126	0	0

3 — *Dr.* — RENT ACCOUNT. — *Cr.* — 3

19	01		J	£	s.	d.
Mar.	30	To Cash	1	10	0	0

4 — *Dr.* — WAGES ACCOUNT. — *Cr.* — 4

19	01		J	£	s.	d.
Mar.	30	To Cash	1	5	0	0

5 *Dr.* DAVID NEWMAN—CAPITAL ACCOUNT. *Cr.* 5

19				£	s.	d.	19				£	s.	d.
Mar.	28	To Cash	J 1	20	0	0	Mar.	1	By Cash	J 1	500	0	0

NOTE.—The "Capital Account" is the Account showing the position of the Proprietor in relation to the Business.

6 *Dr.* SHARP & SHARP, 1, Market Place, Darlington. *Cr.* 6

19				£	s	d.	19				£	s.	d.
Mar.	11	To Cash	J 1	300	0	0	Mar.	4	By Goods	J 1	300	0	0

7 *Dr.* RICHARDS & CO., 14, Queen's Road, Portsmouth. *Cr.* 7

19				£	s.	d.
Mar.	8	To Goods	J 1	196	10	0

8 *Dr.* WARING & SON, Albion Works, Birkenhead *Cr.* 8

19				£	s.	d.
Mar.	15	To Goods	J 1	126	0	0

Each of the above accounts is supposed to have a separate page or folio allotted to it in the Ledger.

The Ledger now contains a classified record of all transactions.

In the next chapter we shall see what further use is made of these accounts, and how they are finally dealt with at the end of any given period of trading. It is important that at this point the student should have obtained a clear idea of the original entries (Journal), and how they are arranged and collected in a concise form (Ledger).

EXERCISE 7.

Journalise the following transaction of Hugh Bayliss, post to the Ledger, balance the Cash Account:—

1901.		£	s.	d.
April 1	Hugh Bayliss commenced business with a stock of goods	10	15	9
,, 3	Sold goods for cash	3	10	0
,, 6	*Paid rent		10	0
,, 10	Bought goods from Duncan & Sons, 1, John Street, Derby	5	16	9
,, 11	Sold goods to Vasey & Co., 29, Wood Street, Northampton	4	11	8
,, 13	Sold goods for cash	4	17	6
,, 13	Paid rent		10	0
,, 16	Paid Duncan & Sons cash	3	0	0
,, 16	Sold goods to Duncan & Sons	2	16	9
,, 18	Bought goods from Vasey & Co.	2	0	0
,, 20	Paid rent		10	0
,, 24	Sold goods for cash	4	14	4
,, 24	Received cash from Vasey & Co.	2	11	8
,, 27	Paid rent		10	0
,, 30	*Paid cash for sundry trade expenses	2	0	0

*Rent and trade expenses may be included in *one* nominal account, "*Expenses Account.*"

EXERCISE 8

Journalise the following transactions of Frank Harwood, post to the Ledger, balance the Cash Account and the Personal Accounts:—

1901.		£	s.	d.
April 1	Received cash on loan from Samuel Lawson	1,200	0	0
,, 4	Bought goods from Marks & Co.	1,050	0	0
,, 6	Paid Marks & Co.	1,050	0	0
,, 9	Sold goods for cash	720	0	0
,, 11	Sold goods to Piper Bros. & Co.	385	0	0
,, 14	Received cash from Piper Bros. & Co. ...	285	0	0
,, 16	Paid Samuel Lawson	1,000	0	0
,, 16	Sold goods to Samuel Lawson	40	0	0
,, 23	Bought goods from Samuel Lawson ...	50	0	0
,, 26	Sold goods for cash	100	0	0
,, 26	Paid cash to Samuel Lawson	100	0	0
,, 27	Bought goods from Thoresby & Son ...	340	0	0
,, 27	Sold goods to Stamford Bros.	465	0	0
,, 27	Received cash from Stamford Bros. ...	350	0	0
,, 29	Paid cash to Samuel Lawson	110	0	0
,, 30	Paid cash to Thoresby & Son	340	0	0

CHAPTER VI

Balancing—The Trial Balance

Book-keeping is intended to show the trader the true result of all his transactions at the end of any stated period of trading. At the end of such a period, which is usually six or twelve months, the trader wishes to know the exact position of his business, and whether his transactions have resulted in a profit or a loss. We will now explain how this object is attained. Let us suppose that David Newman, whose transactions appear in Chapter V., wishes at the end of March to ascertain the result of his trading during the month. Two things must be done—

1. Take stock.
2. Balance the Ledger.

It is very seldom practicable to perform both these functions on the same day, but a list of the goods on hand at the close of the business on the last day of the period, in this case 30th March, should be prepared without any delay in order to avoid errors. The subject of Stock-taking will be referred to later. We will assume that goods costing £10 are in hand on 30th March, and proceed at once to the second step—the balancing of the Ledger.

All the transactions have been recorded in the book of original entry (the Journal), all the entries in the Journal have been posted to the Ledger, and these entries comprise an equal amount, in money, of debtor and creditor items. This means that our Ledger, as a whole, contains equal amounts on each side of the accounts, *if the postings have been made correctly.* In order to find out *if* the two sides of the Ledger Accounts *do* agree, a list of all the balances appearing in these accounts is prepared, called a *Trial Balance.*

The following list, or Trial Balance, is written out on a loose sheet of paper, and must not be considered as being an *account* of any kind :—

DAVID NEWMAN.—TRIAL BALANCE (30th March, 1901).

Ledgr. Folio.	Name of Account.	Dr. Balance.			Cr. Balance.		
		£	s.	d.	£	s.	d.
1	Cash	171	0	0	—	—	—
2	Goods	—	—	—	28	10	0
3	Rent	10	0	0	—	—	—
4	Wages	5	0	0	—	—	—
5	David Newman, Capital Account	—	—	—	480	0	0
7	Richards & Co.	196	10	0	—	—	—
8	Waring & Son	126	0	0	—	—	—
		508	10	0	508	10	0

To understand this the student should now refer to the Ledger (pages 31, 32, 33). In preparing the Trial Balance, each account must be examined.

Ledger Folio 1—Cash Account.—The debit side exceeds the credit side by £171, which amount is therefore a Debtor Balance, and is inserted in the Trial Balance.

Ledger Folio 2—Goods Account.—This account should not be added in ink at present, but the totals of each side are ascertained (pencilled in if necessary) to be Dr. £359 and Cr. £387 10s. The Cr. side exceeds the Dr. side by £28 10s., which amount is therefore a Credit Balance, and is inserted in the Trial Balance.

Ledger Folio 3—Rent Account.—Dr. total, £10; Cr. total, *nil.* Debtor Balance, £10, inserted in Trial Balance.

Ledger Folio 4—Wages Account.—Dr. total, £5; Cr. total, *nil.* Debtor Balance, £5, inserted in Trial Balance.

Ledger Folio 5—David Newman, Capital Account.—Dr. total, £20; Cr. total, £500. Credit Balance, £480, inserted in Trial Balance.

Ledger Folio 6—Sharp & Sharp.—Dr. and Cr. totals are equal. No balance.

Ledger Folio 7—Richards & Co.—Dr. total, £196 10s.; Cr. total, *nil.* Debtor Balance, £196 10s., inserted in Trial Balance.

Ledger Folio 8—Waring & Son.—Dr. total, £126; Cr. total, *nil.* Debtor Balance, £126, inserted in Trial Balance.

All the Ledger Accounts having been examined, and their balances written on the Trial Balance, the Dr. and Cr. columns of the latter are added up, and the totals are found to agree with each other. This *must* be the result if *equal amounts* have been *posted* to each side of the Ledger, and in ascertaining the balances *equal amounts* have been *omitted* on each side. The Trial Balance is a useful preliminary step towards the completion of the book-keeping for a given period. It is important that the student should understand that it must not be regarded as an absolute check upon the accuracy of the book-keeping. It will be sufficient at present to point out that the Trial Balance will *not* reveal the following errors :—

Posting an amount to the *wrong account* in the Ledger.

Omitting to post *two* equal amounts to the Dr. and Cr. sides of the Ledger.

The Trial Balance occasionally is found *not* to agree in its totals of balances; this disagreement, or "difference," may be caused by :—

Posting a wrong amount to the Ledger, such as £23 6s. 0d. instead of £20 3s. 6d.

Omitting to post an amount.

Writing down Ledger Balance wrongly.

Omitting the balance of an account from the Trial Balance.

Posting an amount to the wrong side of the Ledger Account.

Any "difference" should be searched for by comparing all the entries or postings until it is discovered, and the Trial Balance corrected.

We must now go back to the Goods Account, and deal with the stock of goods on hand. The Goods Account, as it now stands in the Ledger, shows us that this account has *received* value to the amount of £359, and that it has *parted with* value to the amount of £387 10s. 0d. We also know, by inspection of the goods unsold on hand, that this portion of the business possesses a stock to the value of £10. What happens is this: The Trader's business will *recommence* its operations *on the day following* the end of the period now under consideration, viz., the month of March, and of course it will possess in "goods" this stock value, £10. The business's Goods Account for the month of April *receives* this value *from* the Goods Account for the

month of March, and the Goods Account (March) hands over or *delivers* this value to the Goods Account (April) exactly in the same way as the Cash Account hands over its cash in hand to the new Cash Account. The April Goods Account is therefore debtor to the March Goods Account for the stock, £10.

The following entries record this :—

JOURNAL.

											2
19 Mar.	01 30	Goods Account (April) *Dr.*	9	£ 10	s. 0	d. 0					
		To Goods Account (March) for value of Stock on hand	2				£ 10	s. 0	d. 0		

LEDGER.

2	*Dr.*	GOODS ACCOUNT (March).										*Cr.*	2
19 Mar.	01 4	To Sharp & Sharp	J 1	£ 300	s. 0	d. 0	19 Mar.	01 5	By Cash	J 1	£ 65	s. 0	d. 0
	13	,, Cash	1	59	0	0		8	,, Richards & Co.	1	196	10	0
								15	,, Waring & Son	1	126	0	0
								30	,, Goods Account (April) for Stock ...	2	10	0	0

9	*Dr.*	GOODS ACCOUNT (April).										*Cr.*	9
19 Mar.	01 30	To Goods Account (March) for Stock ...	J 2	£ 10	s. 0	d. 0							

EXERCISE 9.

Journalise the following transactions, post to Ledger, and prepare Trial Balance at 30th April, 1901 :—

1901.		£	s.	d.
April 1	Arthur Robson commences business with cash, £300, and goods	100	0	0
,, 4	Sold goods for cash	40	0	0
,, 5	Bought goods from Richard Armstrong ...	125	0	0
,, 10	Sold goods to Harrison & Wells	280	0	0
,, 12	Bought goods from Evered Bros.	142	0	0
,, 15	Bought goods for cash	110	0	0
,, 18	Paid cash to Richard Armstrong	125	0	0
,, 23	Received cash from Harrison & Wells... ...	100	0	0
,, 25	Arthur Robson withdraws cash	100	0	0
,, 27	Bought goods from Wheeler & Son	120	0	0
,, 29	Sold goods to Armitage Bros.	300	0	0
,, 30	Paid cash to Wheeler & Son	80	0	0
,, 30	Paid sundry expenses	20	0	0

EXERCISE 10.

Journalise the following transactions, post to Ledger, prepare Trial Balance at the 30th April, 1901 :—

1901.		£	s.	d.
April 1	Alfred Hyman commences business with cash, £50, and horse and cart, £20.			
,, 2	Bought goods for cash	17	10	0
,, 3	Sold goods for cash	13	14	6
,, 6	Bought goods from Hume & Rees	12	8	4
,, 9	Sold goods to Green & Co.	38	10	8
,, 12	Bought goods from Lewis & Hopkins	14	7	3
,, 13	Paid wages	2	19	8
,, 16	Paid Hume & Rees...	12	5	5
,, 20	Bought goods from Lewis & Hopkins	30	11	10
,, 20	Paid wages	1	17	6
,, 23	Sold horse and cart to Lewis & Hopkins ...	22	0	0
,, 24	Received cash from Green & Co....	10	8	10
,, 25	Paid cash to Lewis & Hopkins	22	19	1
,, 26	Paid wages	2	15	9
,, 27	Paid wages	2	4	2
,, 29	Sold goods to Joseph Fletcher	27	11	9

Open separate account for "Horse and Cart."

After preparing Trial Balance, journalise and post the stock of goods on hand 30th April, £18 10s.

CHAPTER VII

Profit and Loss Account—Balance Sheet

For the purpose of showing in a convenient form the results of the transactions of the business for a given period, an account is opened called the *Profit and Loss Account*, into which are collected the balances of the Nominal Accounts—i.e., the accounts which do not represent actual assets or actual liabilities. The first account of this kind is the Goods Account (March).

The entries in the previous chapter show us the position of this account after the stock has been duly recorded. The Goods Account (March) is now altered, and shows a Creditor Balance of £38 10s. This means that it has parted with (in actual sales *plus* value of goods unsold) £38 10s. more value than it received:—the result of selling goods at a higher value than they cost. This Creditor Balance is a *profit* on the goods, and is carried to an account which is intended to show the final result of the transactions, viz., the *Profit and Loss Account.*

JOURNAL.

										2
19 Mar.	01 30	Goods Account (March)	*Dr.*	2	£ 38	s. 10	d. 0	£	s.	d.
		To Profit and Loss Account		10				38	10	0

LEDGER.

2 — *Dr.* — GOODS ACCOUNT (March). — *Cr.* — 2

19	01		J	£	s.	d.	19	01		J	£	s.	d.
Mar.	4	To Sharp & Sharp	1	300	0	0	Mar.	5	By Cash	1	65	0	0
	13	,, Cash	1	59	0	0		8	,, Richards & Co.	1	196	10	0
	30	,, Profit and Loss Account ...	2	38	10	0		15	,, Waring & Son	1	126	0	0
								30	,, Stock	2	10	0	0
				397	10	0					397	10	0

10 — *Dr.* — PROFIT AND LOSS ACCOUNT. — *Cr.* — 10

19	01		J	£	s.	d.
Mar.	30	By Goods Account	2	38	10	0

The above entries show how the Goods Account is "closed" by a Journal entry, which transfers or carries its balance of profit to the Profit and Loss Account.

Turning to the Trial Balance, we see that the Debtor Balances are divisible into two kinds—(a) Balances which represent actual property or assets (viz., the cash, £171, and debts due from Richards, £196 10s., and Waring, £126); (b) Balances which *do not* represent assets (viz., the Nominal Accounts—Rent, £10, and wages, £5).

We deal with the latter (b) first. These accounts represent expenses incurred in conducting the business, and in order to show the final result they must be collected into the "Profit and Loss Account."

This is done as follows:—

JOURNAL.

												2
19 Mar.	01 30	Profit and Loss Account				*Dr.*	10	£ 15	s. 0	d. 0	£	s.	d.
		To Rent Account...	...	...	...		3				10	0	0
		,, Wages Account	...	...	...		4				5	0	0

LEDGER.

3 — *Dr.* — RENT ACCOUNT. — *Cr.* — 3

19 Mar.	01 30	To Cash	J 1	£ 10	s. 0	d. 0	19 Mar.	01 30	By Profit and Loss Account ...	J 2	£ 10	s. 0	d. 0

4 — *Dr.* — WAGES ACCOUNT. — *Cr.* — 4

19 Mar.	01 30	To Cash	J 1	£ 5	s. 0	d. 0	19 Mar.	01 30	By Profit and Loss Account ...	J 2	£ 5	s. 0	d. 0

10 — *Dr.* — PROFIT AND LOSS ACCOUNT. — *Cr.* — 10

19 Mar.	01 30	To Rent	J 2	£ 10	s. 0	d. 0	19 Mar.	01 30	By Goods Account	J 2	£ 38	s. 10	d. 0
	30	,, Wages ...	2	5	0	0							

The Rent Account and the Wages Account are now "closed."

The Profit and Loss Account shows now a Credit Balance of £23 10s.; this is the amount of profit on the goods after deducting all the expenses (rent and wages), and, being a Credit Balance,

means that the business *owes* this amount *to the proprietor of the business*, David Newman.

The balance of the Profit and Loss Account must now be carried to the credit side of the account of David Newman.

JOURNAL.

											2
19 Mar.	01 30	Profit and Loss Account To David Newman, Capital Account ... For Profit for Month	*Dr.*	10 5	£ 23	s. 10	d. 0	£ 	s. 	d.
								23	10	0

LEDGER.

10 — *Dr.* — PROFIT AND LOSS ACCOUNT. — *Cr.* — 10

19	01		J	£	s.	d.	19	01		J	£	s.	d.
Mar.	30	To Rent	2	10	0	0	Mar.	30	By Goods Account	2	38	10	0
	30	,, Wages	2	5	0	0							
	30	,, David Newman (Profit)	2	23	10	0							
				38	10	0					38	10	0

The Profit and Loss Account is now closed.

5 — *Dr.* — DAVID NEWMAN—CAPITAL ACCOUNT. — *Cr.* — 5

19	01		J	£	s.	d.	19	01		J	£	s.	d.
Mar.	28	To Cash	1	20	0	0	Mar.	1	By Cash	1	500	0	0
	30	,, Balance carried down		503	10	0		30	,, Profit and Loss Account ..	2	23	10	0
				523	10	0					523	10	0
							Mar.	30	By Balance brought down		503	10	0

David Newman's account now shows that he is a creditor of the business on March 30th, £503 10s. 0d., this being the amount of cash he put into the business at its commencement, *together with* the profit earned during the month, *less* the amount withdrawn during the month.

What is required now is a statement showing the position of the business on 30th March, i.e., its *liabilities and assets*. The Ledger contains this information in its various accounts. These are now to be arranged in the form of a *Balance Sheet*.

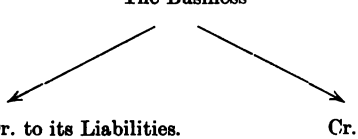
A Balance Sheet is a statement showing the liabilities and assets of a business on a certain date.

BALANCE SHEET, 30TH MARCH, 1901.

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
To David Newman (capital)...	503	10	0	By Cash	171	0	0
				,, Goods in Stock	10	0	0
				,, Richards & Co.	196	10	0
				,, Waring & Son	126	0	0
	503	10	0		503	10	0

The Balance Sheet is *not a Ledger Account*, but is a summary of the balances appearing in the Ledger *after* the books are finally posted up. It is written on a separate sheet of paper, and is prepared as follows:—On the left-hand side, under the heading of *liabilities*, are entered all the *Cr.* Balances; in this example the only liability of the business is that to the owner thereof; there are no liabilities to other persons. On the right-hand side are entered all the *Dr.* Balances, which represent assets, as we have seen. The amounts are obtained by examining the Ledger, which shows these balances in the accounts of Cash, Goods (the April or new account) for Stock, Richards & Co., and Waring & Son.

The student will probably inquire why the Debtor Balances are shown on the Balance Sheet on the *right*-hand side, and the Creditor Balance on the *left*-hand side. He should remember that this Statement or Balance Sheet is *not* a Ledger Account, but that it should be regarded as the statement showing the position of the business in relation to the owner and to other persons. In the Ledger the Cash and Goods, Waring, and Richards, are all *debtors* to the business; conversely, the business is the *creditor* of these assets. And as David Newman is the *creditor* of the business, so the business is *debtor* to David Newman. The Balance Sheet shows



This explains the reason for the form which is commonly followed in this country. The point is not one of practical importance, however; the chief consideration should be the *accuracy* of each item in the Balance Sheet.

EXERCISE 11.

Assuming that the following Ledger Accounts have been posted from a Journal, prepare a Trial Balance at 31st May, 1901; record the stock of goods on hand, 31st May, £92 10s.; open and write up Profit and Loss Account; and prepare Balance Sheet, 31st May, 1901. (The following accounts should be copied out—capital, wages, rent—so that the closing entries may be added.)

LEDGER.

INDEX TO LEDGER.

	Folio.		Folio.
Buchanan Bros.	5	Birmingham	5
Capital	3	... ...	3
Carver, Chas.	9	Manchester	9
Cash	1	... ...	1
Goods	2	... ...	2
Herring, Jas.	12	Lincoln	12
Holden & Co.	4	Plymouth	4
Kinloch & Son	6	Bristol	6
Perry & Sons Ltd.	8	Nottingham	8
Rent	13	... ...	13
Robertson, Alfred (Capital a/c)	3	... ...	3
Thompson, Thos.	10	Derby	10
Wages	7	... ...	7
Wright Bros. & Co.	11	Leicester	11

1 — CASH ACCOUNT. — 1

Dr.			£	s.	d.				£	s.	d.
1901 May	1	To A. Robertson, Capital Account	50	0	0	1901 May	11	By Wages... ...	4	2	6
	4	,, Goods	8	10	6		13	,, Buchanan Bros.	55	10	0
	11	,, ,, ...	10	17	3		16	,, Kinloch & Son	17	15	0
	18	,, ,, ...	12	15	8		18	,, Wages	2	10	3
	24	,, Holden & Co....	40	10	0		24	,, Goods	32	16	8
	25	,, Goods	11	9	3		25	,, Wages	2	18	9
	28	,, Chas. Carver ...	15	14	6		31	,, ,, ...	2	4	6
							31	,, Rent	10	0	0

2 — GOODS ACCOUNT. — 2

Dr.			£	s.	d.				£	s.	d.
1901 May	1	To A. Robertson, Capital Account	85	0	0	1901 May	2	By Holden & Co.	23	10	0
							4	,, Cash	8	10	6
							11	,, ,, ...	10	17	3
	3	,, Buchanan Bros.	35	0	0		16	,, Holden & Co.	17	0	0
	8	,, ,, ,,	20	10	0		18	,, Cash	12	15	8
	10	,, Kinloch & Son	17	15	0		20	,, Chas. Carver...	15	14	6
	14	,, ,, ,,	10	17	3		25	,, Cash	11	9	3
	18	,, Perry & Co. Ld.	8	16	9		27	,, Wright, Bros. and Co. ...	38	0	0
	23	,, Thos. Thompson ...	11	9	2		30	,, Jas. Herring..	30	15	4
	24	,, Cash	32	16	8						

3 *Dr.* **ALFRED ROBERTSON—CAPITAL ACCOUNT.** *Cr.* 3

					19 01			£	s.	d.
					May 1	By Cash		50	0	0
					1	,, Goods ...		85	0	0

4 *Dr.* **HOLDEN & CO., Penquin Works, Plymouth.** *Cr.* 4

19 01			£	s.	d.	19 01		£	s.	d.
May 2	To Goods ...		23	10	0	May 24	By Cash	40	10	0
16	,, ,, ...		17	0	0					
			40	10	0					

5 *Dr.* **BUCHANAN BROS., 17, Victoria Square, Birmingham.** *Cr.* 5

19 01		£	s.	d.	19 01		£	s.	d.
May 13	To Cash ..	55	10	0	May 3	By Goods ...	35	0	0
					8	,, ,, ...	20	10	0
							55	10	0

6 *Dr.* **KINLOCH & SON, 4, Denmark Hill, Bristol.** *Cr.* 6

19 01		£	s.	d.	19 01		£	s.	d.
May 16	To Cash	17	15	0	May 10	By Goods ...	17	15	0
					14	,, ,, ...	10	17	3

7 *Dr.* **WAGES ACCOUNT.** *Cr.* 7

19 01		£	s.	d.
May 11	To Cash	4	2	6
18	,, ,, ...	2	10	3
25	,, ,, ...	2	13	9
31	,, ,, ...	2	4	6

8 — *Dr.* — PERRY & SONS, Ltd., Park Street, Nottingham. — *Cr.* — 8

								19 May	01 18	By Goods ...		£ 8	s. 16	d. 9

9 — *Dr.* — CHAS. CARVER, 353, New Road, Manchester. — *Cr.* — 9

19 May	01 20	To Goods ...	£ 15	s. 14	d. 6			19 May	01 28	By Cash		£ 15	s. 14	d. 6

10 — *Dr.* — THOMAS THOMPSON, 14, Merrion Avenue, Derby. — *Cr.* — 10

								19 May	01 23	By Goods ...		£ 11	s. 9	d. 2

11 — *Dr.* — WRIGHT BROS. & CO., The Armoury, Leicester. — *Cr.* — 11

19 May	01 27	To Goods ...	£ 38	s. 0	d. 0									

12 — *Dr.* — JAS. HERRING, Warwick Place, Lincoln. — *Cr.* — 12

19 May	01 30	To Goods ..	£ 30	s. 15	d. 4									

13 — *Dr.* — RENT ACCOUNT. — *Cr.* — 13

19 May	01 31	To Cash	£ 10	s. 0	d. 0									

Section B.—THE PRACTICE

CHAPTER VIII

Division of Original Entries—Sales Day Book

At this point it may be interesting to quote the quaint language of an old writer,* and to notice how the original entries were recorded in his day:—"The Waste Book, if no subsidiary Books are kept, should contain a record of all the Merchant's Transactions and Dealings in a Way of Trade, and that not only of such as are properly and purely Mercantile, but of every Occurrence that affects his Stock, so as to impair or increase it: such as private Expenses, Servants' Fees, House Rent, Money gained or lost on Wagers, Legacies, and the like. . . . . The Waste Book is written in a plain and simple Stile, and ought to be so, for this book being nothing but a bare History of Facts and Occurrences of Trade, containing the Matter and Substance of Accompts, without anything of that artificial Dress which they assume in the other Books, the Stile should be suited to the Nature of a Narrative, that is, simple, plain, and perspicuous; and the more it is so, it is the more like what it should be, answers its Design the better, and the Book will be the more perfect. Yet this Simplicity of Stile does not exclude the Use of Terms and Modes of Expression in use among Merchants; for, as every Artist has a Set of Words and Ways of Speaking, which they have a Liberty and Right to use, as being peculiar to the Art they profess, so Merchants have theirs, and they speak and write like themselves, by using them. In all Merchants' Writings, even in a Waste Book, when written by a Person of Skill and Experience, there is a concise, emphatic Diction, a certain peculiar use of Words and Phrases, which is a kind of Elegancy that runs through and adorns the whole, and at the same Time shows the Ability of the Accomptant. This should be carefully studied by a Learner, and is only to be acquired by Converse with Merchants and the Imitation of well-writ Books. Indeed the *less* of this Merchant Stile is to be expected in a Waste Book, in regard it is writ up in the Time of Business, and

* "Book-keeping Methodiz'd, or a Methodical Treatise of Merchant-Accompts, according to the Italian form." By John Mair, A.M. Edinburgh, 1736.

often in the very Hurry of it; yet this inconveniency might be prevented if Accomptants would be at the Pains first to minute things upon a Blotter, and afterward when the Throng of Business is over, to extend them in the Waste Book. By this Means both the Expression might be more accurate, and the Writ much the fairer. And this certainly is the Method that should be taken by a young Book-keeper. . . . ."

"Having thus far insisted on the Nature of the Waste Book, I come now to take notice of its true Use, and the Necessity of keeping it: both which appear from the Consideration following, viz.:—First, the filling up of the Journal, being the nice and difficult part in Book-keeping, cannot well be performed in the Time of Business, but requires Leisure, and Retirement, Thought and Deliberation. Nor is it proper to leave the Transactions of the Day unrecorded till the Hours of Business are over, for they may escape the Memory and be quite forgot, or at best breed confusion. It is needful then, that a simple Record go constantly on, keeping pace with the Occurrences of Trade, containing a complete Narrative of everything transacted, out of which the Journal may be made up at leisure Hours. Again, secondly, after the Journal is filled up, the Waste Book is the Touchstone by which it must be tried and proved; or if wrong, corrected. It is therefore absolutely necessary to keep a Waste Book; and these are the proper and genuine Uses of it. Indeed, after the Journal is filled up and corrected, the Waste Book is of little further Use; and probably on this Account it has got the Name it bears."

"The Pocket-Book: This is a small Book, of a portable Size, which a Merchant carries in his Pocket when business calls him abroad to a Tavern, a Fair, the Country, or other Places. In this he sets down the Bargains he makes, the Expenses he is at, the Debts he pays, or Sums he receives, with every other Part of Business he transacts while abroad; as also any Occurrence or Piece of News he thinks worth while to record; and when he comes home to his Compting-house or Shop, he transfers the things contained in this Book, each to their proper Places in the Waste Book or Books subsidiary."

"Factors of great Business sometimes keep another small book, called the 'Memorandum Book.' . . . "

However important the Memorandum Book, Pocket Book, Waste Book, or Slate may have been, we will not trouble the student with them now, but will proceed to consider our subject in its more practical application.

In the preceding chapters the transactions have been dealt with in such a manner as will enable the student to obtain a grasp of the meaning of the "double entry" principle; and each transaction has been made the subject of two distinct entries in order to fully exhibit the "two-fold" effect in each case. The method employed is that which was used in former days, when business was conducted with less pressure and hurry than at the present time. The student, after having carefully worked through that section, may now learn how the method is modified to meet practical requirements, whilst the underlying *principle* still remains steadfast.

The changes which are now to be considered chiefly apply to the recording of the original entries. In the former section *one book* of original entry has been used, the Journal; but, as stated on page 25, the use of one book only for this purpose is, in the large majority of cases, not a convenient plan. Separate books are therefore called into use for recording separate classes of transactions, and the first book now to be considered is the book containing the original entries of the sale of goods, or the *Sales Day Book*. This book has many other names, such as Goods Sold Book, Day Book, Sales Journal, &c., but we prefer to employ the name mentioned, as signifying the book in which entries of *sales* are to be made *daily*.

Goods are sold in two ways:—Either to a customer who does not pay cash at the same time, such transactions are called "credit sales." Or in exchange for cash received at the same time, such transactions are called "cash sales."

In most businesses the "cash sales" are not entered in the Sales Day Book as they occur; they are more conveniently dealt with in a manner to be explained later. The primary object of the Sales Day Book is to record the "credit sales."

(It must be understood that, in speaking of the *sale* of goods, we are always referring to the actual delivery of goods to the customer. Occasionally the *sale* and the *delivery* do not take place on the same day: a customer may buy a quantity of goods

in March and stipulate that they shall be delivered to him, partly in April, and partly in May. In the following transactions to be dealt with the goods are *sold and delivered.*)

The entry in the Sales Day Book, if it is to be a complete record of the transaction, should contain—

(1) The date of the sale.

(2) Name and address of the customer.

(3) Description of the goods, sufficiently full so as to enable them to be easily identified, and including weight, number, or quantity.

(4) The selling price of each article.

(5) Amount of selling value of goods (shown separately if there are more items than one), and

(6) A total of the whole.

(7) Memorandum of the mode of conveyance or delivery of the goods, and stating whether the carriage (if any) is payable by the buyer or seller.

(8) Memorandum of any special terms which may have been agreed to, as to length of credit, &c.

The following is the ordinary form of Sales Day Book, and the numbers show where the above items of information should appear :—

SALES DAY BOOK.

(Ledger Folio of Customer's Account inserted in this space.)	No. 1 (Date). No. 2 No. 3 No. 7 No. 8 A line is ruled across this space between entries for each person.	No. 4	No. 5	No. 6

JOSEPH MEREDITH, Cloth Merchant—
SALES DAY BOOK.

			£	s.	d.	£	s.	d.
								1
1	*June 1st*, 1901.							
	Hy. Ashbourne & Sons,							
	7, Arundel St., Bradford.							
	24 yds. Blue Serge, No. 10,124	3/6	4	4	0			
	10 ,, Lambs' Wool, No. 9,243	5/3	2	12	6	6	16	6
	Per Mid. Rly. ; Carriage Paid.							
2	*June 5th.*							
	Mitchell & Co.,							
	Mayfield Sq., Hull.							
	20 yds. Fancy, No. 11,348 ...	4/2	4	3	4			
	60 ,, Cheviot, No. 19,673 ...	3/10	11	10	0			
	21 ,, Melton, No. 10,012 ...	4/-	4	4	0			
	Canvas			1	6	19	18	10
	Per N.E.R. ; 5% for cash.							
3	Thomas Chambers,							
	3, Cannon St., Leicester.							
	10 yds. Brown Lining	1/8		16	8			
	8 ,, Blk. Worsted, No. 13,315	6/4	2	10	8			
	12 ,, Grey Mixture, No. 12,523	3/10	2	6	0			
	30 ,, Royal Tweed, No. 10,782	3/6	5	5	0	10	18	4
	Per M.R.							
	Forward ...		37	13	8	37	13	8

SALES DAY BOOK.

									2
			£	s.	d.	£	s.	d.
	Forward ...		37	13	8	37	13	8
4	Scott & Kingsley,							
	The Stores, Great Yarmouth.							
	40 yds. Black Vicuna, No. 14,176	3/-	6	0	0			
	12 ,, Worsted Coating,							
	No. 12,457	4/8	2	16	0			
	30 yds. Print	1/8	2	10	0			
	Canvas			1	0	11	7	0
	Per G.N.R. Passenger.							
	June 12th.							
5	Daniel Dawson,							
	James' Sq., Otley.							
	12 yds. Box Cloth, No. 12,512...	6/-	3	12	0			
	20 ,, Green Curl, No. 13,431	4/6	4	10	0			
	18 ,, Covert Coating,							
	No. 11,958	7/-	6	6	0			
	24 yds. Grey Flannel	2/3	2	14	0			
	60 ,, Blue Pilot, No. 10,871...	4/9	14	5	0			
	Canvas			2	0	31	9	0
	Per your Cart.							
	June 20th.							
3	Lucas Bros.,							
	159, Union Rd., Chesterfield.							
	6 yds. Fancy Mixture, No. 10,034	3/3		19	6			
	4 ,, Covert Coating,							
	No. 11,958	7/-	1	8	0	2	7	6
	Per Parcels Post.							
	Cr. Led. fo. 13...		82	17	2	82	17	2

The foregoing transactions of Joseph Meredith form part of a series to be continued through the subsequent chapters.

The above Sales Day Book will serve as an example of the manner in which such a book should be kept. The value of each

item is extended into the first cash column, and the total of each sale is carried into the second cash column; this should be done in all cases, even if the sale consists of one item only, as then both cash columns can be added up, and the agreement of the totals gives a useful check on the correctness of the additions of each separate sale.

The cash columns are added up and the figures carried forward page by page until the end of the month, when the totals are ruled off. It is important that this book should be written up *promptly*. Each sale should be entered either before or during the packing of the goods. Great care should be taken to see that all goods despatched are recorded in this book, and the proper price charged.

Only actual sales should be entered; any goods sent out merely "on approval," which may or may not be retained by the customer, should be first recorded in a separate book (Appro. Book) as a memorandum only, the goods which are eventually sold to the customer being then entered in the Sales Day Book.

The Sales Day Book, having been duly entered up, is *posted* in the following manner:—

The amount of each sale is entered in the Ledger on the Dr. side of the customer's account, and the Sales Day Book folio number written in the Ledger.

The Ledger folio number is written in the Sales Day Book in the space at the left-hand margin, in bold figures, thus showing at a glance whether any item has escaped being posted. At the end of the month the final total of sales is posted to the Cr. side of an account in the Ledger called "Sales Account" (to be eventually carried to the Cr. side of the Goods Account), the respective folios being inserted as before.

When this posting has been done the Ledger contains, as far as this matter of sales is concerned, an *equal* amount on each side, viz., a number of items on the Dr. side of customers' accounts which equal in amount the item on the Cr. side of the Sales Account.

The principle of double entry is thus given effect to without the labour attendant upon entering each separate transaction twice in the Ledger.

The method of posting from the Sales Day Book to the Ledger will be referred to again in the chapter on the Ledger.

Each day, when the Sales Day Book is written up, Invoices are prepared and sent out to each customer.

The Invoice is a copy, written on a printed form, of the particulars and prices of the goods sold as appearing in the Sales Day Book. Sometimes this process is reversed: the Invoice is written out and then copied into the Sales Day Book. This is a practice to be avoided, as it carries the risk of the Invoice being *sent away before* the entry is made in the Day Book, and if the latter entry were by any chance omitted, there is increased danger of the value of the goods being lost.

As a general rule, it is advisable that the Sales Day Book shall include only entries of sales of the goods in which the trader deals. The sale of any other article, such as an old machine, or any other portion of the assets (apart from the goods), may more conveniently be dealt with by means of a Journal entry.

When the Sales Day Book is used, no entries of its transactions are made in the Journal.

The student is referred to Part II. of this work for examples of the mode of adapting the Sales Day Book to meet special requirements, and for methods of dissection and analysis of its contents.

EXERCISE 12.

Make calculations and enter in a Sales Day Book the following sales of Perkins Bros., Stationers, London:—June 1st, 1901, J. Greatorex & Co., 5, Smith Lane, London, E.C.—5,000 British envelopes (No. 2) @ 2/7½ per thousand; 3 doz. Wolff's No. 12 red pencils @ 1/11 per doz.; 1 cwt. brown paper @ 1/9 per stone. June 4th, W. L. Hardy & Co., Albion Mills, Bradford—12 copying letter books (quarto) @ 4/9; 6 doz. 3d. memo. books @ 2/9 per doz.; 2,000 cash envelopes @ 3/11 per thousand; 18 ½-lb. balls thick twine @ 6d. each, per G.N.R. (carriage paid). June 6th, Russell and Sons, 107, Wellington Road, Sheffield—3,500 Manila envelopes @ 2/9 per M.; 6 bots. writing ink @ 2/10½; 12 sticks Bank of England sealing wax @ 3½d.; 2,500 book post wrappers (plain) @ 9/6 per M.; 6 boxes rubber bands (assorted) @ 3/-; 4 gross Gillott's 451 pens @ 1/2½d. gross, per Mid. Rly. (carriage paid). June 10th, The Northern Drug Co., The Stores, Carlisle—25 balls thin twine @ 11½d.; 2½ gross patent fasteners @ 5/8 gross; 6,000 British No. 5 envelopes @ 4/10 per M.; 6 doz. H.B. pencils @ 1/1½ doz.; 2 gross cube boxes at 4/6 doz., per L. & N.W. Rly. (carriage forward).

EXERCISE 13.

Make calculations and enter in a Sales Day Book the following sales of Richardson & Masters, Ironmongers:—June 3rd, 1901, J. R. Allison, 17, Queen's Road—1 fish kettle, 3/6; 2 hot water cans @ 2/5; 3 enamelled saucepans @ 1/9. June 7th, Mrs. Thurston, 28, Lansdown Terrace—2 plate baskets @ 4/9; scales and weights, 10/6; coal scoop, 3/-. June 12th, Hy. Mortimer, 1, Rothesay Place—Shovel, 9d.; copper pan, 10/-. June 15th, Hanson & Ward, 14, Manor Street—1 gas fire, 32/6; brass fender and irons, £3 12s. 6d. June 19th, Mrs. Thos. Emsley, Clarence Villas—2 gas globes @ 6½d.; spade, 3/-; garden rake, 1/9; fork, 1/3; 1 set fire brasses, 14/6. June 22nd, Robert Rushton, 146, Park Road—Carpet sweeper, 11/6; 1 brass kerb fender, £2 17s. 6d.; coal box, 15/6. June 25th, Miss Morgan, The High School—1 wringer, 30/-; 1 brass gong, 35/-. June 28th, W. H. Swift, Royal Parade—1 pair firebricks, 2/-; curtain chains, 3/6. J. W. Lawson, 15, South Street—2 pails @ 1/6; watering can, 3/-; 2 doz. picture hooks @ 1/3 per doz.; wire mat, 5/-.

CHAPTER IX

Purchases Day Book

We have seen that the entries of sales are more conveniently recorded in a separate book, viz., the Sales Day Book. Similarly, a separate book of original entry is found to be useful for the recording of purchases of goods. In some cases this book may be combined with the Sales Day Book, forming one volume, but usually it is better to keep a distinct book for this purpose. The names given to this book in various offices are Purchases Book, Bought Day Book, Bought Book, Credit Journal, Invoice Book, &c. We will employ the name *Purchases Day Book* as signifying the book in which entries of *purchases* are to be made *daily*.

For our present purpose, and for the sake of simplicity, we will assume that this book contains only entries of purchases (on credit) of goods in which the trader deals, or materials for manufacture. Other purchases may be conveniently recorded in the Journal.

The form and method of keeping the Purchases Day Book depend to a large extent upon the system of dealing with Invoices received. Whatever the nature of the business may be, it should be a fixed rule that an Invoice should be received with each lot of goods purchased, or the Invoice should arrive by the next post. The observance of this rule will facilitate the keeping of accounts, and to a great degree prevent confusion and error. The goods having been received, the Invoice should be, without delay, examined to ascertain if it is correct in respect of the quantity, quality, and price of the goods bought; all calculations or extensions and additions upon the Invoice must be checked, and if any error is discovered the Invoice should be promptly returned to the seller for correction. Each person who examines the Invoice for any particular point, such as *quantity* or *calculations*, should add his initials thereto as evidence that it has received due inspection.

The Invoices having been carefully checked in this way, are ready for entering in the Purchases Day Book. There are several ways of keeping this book, and the question as to which

is the best way cannot be answered without regard to the nature and precise conditions under which the business is carried on. This portion of the practical work gives the book-keeper a good opportunity of displaying his skill in arranging his methods so that the object in view, viz., a clear and concise record of transactions, can be attained with the least labour.

We will now consider the usual methods employed. It is necessary for us to keep the *Invoice* and the *Book* in mind at the same time. We will assume that a month's purchases are to be recorded. The purchases may be dealt with in the following way :—

First Method.—Copy the Invoice in full into the Purchases Day Book (just as our *sales* have been entered), and place the Invoices on a file or in a parcel in order of date.

This is the simplest method, and has the advantage of giving full details in the Purchases Day Book, so that it is unnecessary to refer afterwards to the actual Invoice for particulars. Its disadvantage is the labour of copying.

Second Method.—Number the Invoices consecutively, enter the date, name, and amount in the Purchases Day Book, with the Invoice number, but omitting details of quantities, &c. File away the Invoices in numerical order.

This method is shorter than No. 1, but entails the searching for the Invoice itself if any details are required afterwards. If the Invoices are neatly preserved, this reference by number is very quickly done.

Third Method.—Use a Guard Book, or book containing large blank pages of strong paper. Fold up the Invoice (write outside the name of seller and the date), and paste it on the left-hand page and enter the amount on the margin of the page in a line with the Invoice.

This method has the advantage of showing the *actual* Invoice always at the side of the *entry*. Its disadvantages is that Invoices cannot easily be detached if required, and the book is apt to become rather unwieldy.

One of these three methods, with certain suitable modifications which experience will suggest, should be adopted according to the nature and requirements of the business. The analysis, dissection,

or classification of the various entries of purchases will be dealt with in Part II. of this work. At this stage it will be well to use the first method as being best adapted for conveying a full record of the transactions.

Transactions of Joseph Meredith (continued):—

PURCHASES DAY BOOK.—First Method.

									1
			£	s.	d.	£	s.	d.	
7	*June 4th*, 1901.								
	Ogilvie, Sons & Co.,								
	Victoria Mills, Galashiels.								
	1 piece Scotch Tweed,								
	No. 10,976, 78 yds.... ...	3/6	13	13	0				
	1 piece Scotch Tweed,								
	No. 10,848, 72 yds.... ...	3/4	12	0	0	25	13	0	
8	*June 8th.*								
	Warham Woollen Co. Ltd.,								
	Leeds.								
	1 piece Worsted Coating,								
	No. 12,457, 70 yds.... ...	3/10	13	8	4				
	1 piece Worsted Coating,								
	No. 11,376, 74 yds.... ...	4/-	14	16	0	28	4	4	
9	*June 20th.*								
	Hayworth, Bourne & Son,								
	Dewsbury								
	2 pieces Print @ 70 yds. = 140...	1/4	9	6	8	9	6	8	
10	*June 28th.*								
	Drewitt Bros.,								
	Carlisle.								
	48 yds. Serge, No. 10,143 ...	3/-	7	4	0	7	4	0	
	Dr. Led. fo. 15...		70	8	0	70	8	0	

The space at the left-hand side is used for the Ledger folio.

According to the *Second Method* the transactions would be entered as follows:—

PURCHASES DAY BOOK.

								1
Date.		No. of Invoice.	Name.	Town.	Ledger Folio.	Amount of Invoice.		
1901						£	s.	d.
June	4	1	Ogilvie, Sons & Co. ...	Galashiels	7	25	13	0
	8	2	Warham Woollen Co. Ltd.	Leeds ...	8	28	4	4
	20	3	Hayworth, Bourne & Son	Dewsbury	9	9	6	8
	28	4	Drewitt Bros.	Carlisle ...	10	7	4	0
						70	8	0

According to the *Third Method* the transactions would be entered as follows:—

GUARD BOOK—PURCHASES.

				1
(The Invoices are neatly folded and pasted here: they are not of uniform size.)		£	s.	d.
Ogilvie, Sons & Co. *4th June*, 1901.	7	25	13	0
Warham Woollen Co. Ltd. *8th June*, 1901.	8	28	4	4
Hayworth, Bourne & Son. *20th June*, 1901.	9	9	6	8
Drewitt Bros. *28th June*, 1901.	10	7	4	0
		70	8	0

NOTE.—When this Book is used the Invoices should be pasted only on one side of each leaf: otherwise the Book will be more difficult to handle.

The Purchases Day Book having been entered up (according to the First Method), is posted in the following manner:—

The amount of each purchase is entered in the Ledger on the credit side of the seller's account, and the Purchase Book folio number, *or* the number of the Invoice is written in the Ledger:—(the latter plan is often useful, as it facilitates reference to the actual Invoice; if it is adopted, a column for the Invoice No. must be added to the first form of Purchases Day Book). The Ledger folio number is written in the Purchases Day Book, in the column provided. It is, as a general rule, unnecessary to repeat in the Ledger the details of the transaction, the posting being done in a concise style.

1901.			£	*s.*	*d.*
June. 4th	By goods... ...	1	25	13	0

At the end of the month the final total of purchases is posted to the Dr. side of an account in the Ledger called "Purchases Account" (to be eventually carried to the Dr. side of the Goods Account), the respective folios being inserted as before.

When all this posting has been completed, the Ledger will contain, as far as this matter of purchases is concerned, an equal amount on each side, viz., a number of items on the Cr. side of various sellers' accounts which are equal in amount to the item on the Dr. side of the Purchases Account.

The Purchases Day Book is not so difficult to keep as the Sales Book, as the former is written up from the Invoices which have been *received*, whilst the latter is written up *before* the preparation of the Invoices which are to be sent out. As mentioned above, care should be taken to see that Invoices accompany *all* goods received, that the Invoices are correct in all details, and that *only one* Invoice is received for the same parcel of goods. It sometimes happens that an Invoice is sent back to the sender for correction, and a new or "corrected Invoice" is received in its place: and occasionally, *both* the original and corrected Invoices have been entered in the Purchases Day Book in respect of the *same* goods.

Cash purchases, or purchases of goods for which cash is paid at the same time, should not be entered in the Purchases Day Book.

In most businesses these are of small amount, and in the chapter on the Cash Book an explanation of their treatment will be given.

No entries of the transactions appearing in the Purchases Day Book are made in the Journal.

EXERCISE 14.

Enter in a Purchases Day Book (according to the first method) the following purchases of Edward Murdstone, Ironfounder:—April 3rd, 1901, Harrison, Druce & Co.—2 tons 10 cwt. best coke @ 25/- ton, £3 2s. 6d. April 6th, Smalley Bros.—10 tons hard steam coal @ 14/-, £7. April 12th, Ferrum & Sons—25 tons No. 3 Cleveland iron @ 46/-, £57 10s. April 17th, Alfred Sharpley—10 tons 5 cwt. Scotch iron ("Two Stars") @ 53/-, £27 3s. 3d. April 20th, Northern Sandstone Co.—12 tons fine sand @ 5/-, and 24 tons loam @ 9/-, £13 16s. April 23rd, Cuddesdon & Co.—50 tons Middlesbrough G.M.B. iron @ 43/-, £107 10s. April 26th, Joseph Plummer —2 tons English lead @ £12 6s. 8d., £24 13s. 4d.

EXERCISE 15.

Write out on separate sheets of paper the Invoices representing the following purchases of Perkins Bros., Stationers, London, and fasten them into a Purchases Day Book according to the third method described:— 3rd June, 1901, J. Todd & Co. Ltd., 11, Park Street, Birmingham—12 foolscap folio ledgers (6 quires, simple) @ 2/10; 10 foolscap folio cash books (No. 1) @ 3/3; 5 gross small memo. books, 9/1½ gross. 6th June, A. W. Faber, Queen Victoria Street, London, E.C.—3 gross drawing pencils (No. 3) @ 8/7½ gross; 6 doz. large red copying pencils, 2/9 per doz.; 4½ doz. H.B. pencils, 3/10½ gross; 9 doz. special shorthand pencils @ 1/3 doz. 8th June, W. H. & A. Townson, 15, St. Joseph's Place, Manchester— 2 reams white blotting @ 12/8 per ream; 2½ reams royal court 8vo. small note @ 5/-; 1¼ reams royal court note @ 5/6; 2,000 envelopes @ 9/3 per 1,000; 500 cash envelopes @ 8/6 per 1,000; 20 doz. large flax envelopes @ 10d. doz.; 100 document envelopes @ 2/6 doz. 13th June, James Slicer and Sons, Hall Gate Works, Leeds—3 quires foolscap stencil paper @ 2/9 per quire; 3 quires do. @ 2/3 per quire; 10 quires cyclostyle stencil paper @ 1/10 quire; 24 quires do. (brief size) @ 4/3 quire.

CHAPTER X

Returns Books

Goods which have been delivered to, and charged against, a customer are occasionally sent back or "returned" by him for various reasons, and such transactions are a frequent source of worry and annoyance in business.

The reason why the goods are returned may be either that their quality is not so good as the sample submitted when the order was given; *or* that the price charged is more than the buyer agreed to pay; *or* that the goods were not delivered within a specified time, and the delay prevented the buyer from dealing with them as he expected to do; *or* that the goods were never ordered.

Goods are sometimes returned for another reason: the seller may have become doubtful as to his chance of being paid for the goods at the due time, and he may therefore be willing to cancel the bargain and receive his goods back again rather than incur risk. But if a trader knows that he himself is *insolvent* it is illegal for him to return goods to any particular creditor, as such a dealing gives that creditor an undue advantage over the other creditors.

When a dispute arises between the seller and buyer of goods from the foregoing or other reasons, it is often settled without an actual return of goods, but by means of an "allowance." This means that the seller agrees to make a reduction in his charge for the goods in question, and this reduction or allowance is accepted by the buyer.

The "returns" which are most frequently met with in practice are empty packages (cases, bags, boxes, bottles, casks, &c.) which have been charged for by the seller, but which he agrees to take back again when empty and to allow for, either at the full price charged or at some smaller stated amount.

In a trader's accounts the goods which are returned to him by his customers are called *Returns Inwards;* the goods which he returns to the persons from whom he bought them are called

Returns Outwards. "Allowances," or reductions of price, are treated in the same way and entered in the same book as the actual returns.

The Returns Inwards Book contains the original entry of the trader's goods returned by his customers. Its *form* is exactly similar to that of the Sales Day Book, although usually its size is much smaller. The entry in this book should contain details in the same manner as the Sales Day Book entry, viz., the date of the receipt of the goods, customer's name and address, description, weight, number or quantity of goods, and the price of each article, with amount of value of the goods returned. There should be added a note of explanation of the reason why goods have been returned. Care should be taken that the goods *have* actually been *received* from the customer before the returns are entered.

The following is the Returns Inwards Book of Joseph Meredith :—

RETURNS INWARDS BOOK.

									1
			£	s.	d.	£	s.	d.	
2	*June* 10*th*, 1901. Mitchell & Co., Mayfield Square, Hull. 2yds. Fancy, No. 11,348 (stained)	4/2		8	4		8	4	
5	*June* 15*th*. Daniel Dawson, James' Sq., Otley. 12 yds. Box Cloth, No. 12,512 (wrong shade) ... ... Allowance on 60 yds. Blue Pilot as arranged	6/-	3	12	0				
				15	0	4	7	0	
	Dr. Led. fo. 13...		4	15	4	4	15	4	

Each day when the Returns Inwards Book has been written up, Credit Notes are prepared and sent out to each customer who has returned goods.

The Credit Note is a copy of the entry in this book written out on a printed form headed "Credit Note." In order to more

clearly distinguish between an Invoice and a Credit Note, the latter is usually printed in red ink.

The object of issuing this note is to tell the customer exactly what quantity of goods have been received from him, or what allowance has been made, and by what amount his account is thereby credited in the seller's books.

The Returns Inwards Book is "posted" in this way: the total amount of each entry is entered in the Ledger on the Cr. side of the customer's account "By Returns" or "By Allowance," and the Returns Book folio number is written in the Ledger. The Ledger folio number is written in the Returns Book in the space at the left-hand side, in bold figures. At the end of the month the total of Returns Inwards is posted to the Dr. side of the Sales Account in the Ledger, the respective folios being inserted as before.

In respect of these transactions the Ledger now contains an equal amount on each side, viz., several items on the Cr. side of customer's accounts, and an equal amount on the Dr. side of Sales Account.

The Returns Inwards Book being used, no entries of its transactions will be made in the Journal.

The Returns Outwards Book contains the original entries of goods returned by the trader to the persons from whom they were bought, or of allowances which he is entitled to claim. The book is usually in the same form as the Returns Inwards Book, and the entries should be made in a similar manner, adding a memorandum of the mode of delivery in the case of an actual return of goods. Although these transactions bear some resemblance to "sales," yet they should be carefully distinguished from the entries of sales, as they really represent a reduction in the purchases of goods, and not an addition to the sales.

The Returns Outwards Book being written up each day, *Debit Notes* are prepared and sent out to each person whose account is affected. The Debit Note is a memorandum containing a copy of the entry, and is sent out in order to inform the seller of the goods exactly what goods have been returned to him, and at what price, or what allowance is charged to him. The ordinary

Invoice form may be used for this purpose, but the words "Debit Note" should be written at the top in order to draw attention to the precise nature of the transaction set forth.

The Returns Outwards Book is "posted" as follows:—The total amount of each entry is written in the Ledger, on the Dr. side of the personal account—"To Returns" or "To Allowance"—and the Returns Book folio number is written in the Ledger. The Ledger folio number is written in the Returns Book in the space at the left-hand side.

At the end of the month the total of Returns Outwards is posted to the Cr. side of "Purchases Account" in the Ledger, the respective folios being inserted as before.

For "Returns Outwards" the Ledger now contains equal amounts on each side, viz., on the Dr. side of personal accounts, and on the Cr. side of Purchases Account.

No entries of these transactions are made in the Journal.

The following is the Returns Outwards Book of Joseph Meredith:—

RETURNS OUTWARDS BOOK.

1

			£	s.	d.	£	s.	d.
3	*June 11th*, 1901. Warham Woollen Co. Ltd., Leeds. Allowance on Worsted Coating, No. 12,457, 70 yds. ... ... 1 piece returned Worsted Coating, No. 11,376, 74 yds. (wrong design)	-/2 4/-		11	8			
			14	16	0	15	7	8
10	*June 29th.* Drewitt Bros., Carlisle. 8 yds. Serge returned, faded and cut	3/-	1	4	0	1	4	0
	Per Globe.							
	Cr. Led fo. 15		16	11	8	16	11	8

EXERCISE 16.

Make calculations and record the following returns and allowances (inwards and outwards) of Henry Willard, Cloth Merchant, in two Returns Books:—April 3rd, 1901—Returned to Jameson & Small, 1 piece Melton, 56 yds., @ 4/6 (wrong shade), and canvas, 7/6. April 6th—Returned by Williams & Rhodes, canvas, 3/6. April 10th—Returned to Blakey Bros., 2 pieces blue serge, 74 yds. each, @ 3/2 per yd. April 13th—Allowed by Northern Woollen Co. Ltd. for short measure in Cheviot, 30/-. April 17th—Allowed to Kempson & Kaye for stains in cloth, 10/-. April 20th—Returned by Carter & Co., 24 yds. flannel (not ordered) @ 1/2. April 22nd—Returned to Hudson & Leigh, 6 pieces (70 yds. each) worsted @ 4/- per yd. (badly dyed). April 24th—Allowed to Dawson & Dale for over-measure, 15/-. April 25th—Returned to Maynard & Sons, 36 yds. coating @ 4/9, at their request. April 29th—Allowed to Simpson & Steel for damaged cloth, £2 10s.

EXERCISE 17.

Make calculations and record the following returns and allowances (inwards and outwards) of the Retail Boot Co. in two Returns Books:—May 3rd, 1901—3 empty crates @ 10/6 each returned to Bailey Bros. May 7th—Allowed to Jas. Harmon for bad sewing, 2/-. May 9th—1 pair shoes returned by Thos. Jackson (wrong size), 15/6. May 13th—Returned empty case to Walker and Co., 5/6. May 15—Returned 1 doz. men's No. 7 @ 12/3 to Walker and Co. May 18th—Allowed to Hy. Kaye (difference on exchange), 2/-. May 22nd—2 pair shooting boots returned by Col. Newcome (misfits), 35/- and 38/-. May 23rd—Returned 6 boxes to Yardley Bros. @ 7/6. May 25th—Returned by Geo. Holmes—1 pair shoes (sent him in error), 14/6. May 27th—Returned by Miss Lamond, 1 pair shoes (not ordered), 10/6. May 28th—Allowed Benjn. Bradley for error (25/- charged, should be 22/6), 2/6. May 29th—Returned empty crate to Bailey Bros., 8/-. May 30th—Returned by David Frankland, 1 pair boots, 18/6, on account of late delivery.

CHAPTER XI

Cash Book

The Cash Book is the book in which the original entries of the receipts and payments of cash are made, it being inconvenient in practice to record the transactions in the Journal. The Cash Book is more complex than the books already described, and should be closely studied, commencing with the simple form and proceeding to the more elaborate. First let us explain what is meant by the word "Cash" in this connection. Cash includes coin (gold, silver, copper), bank notes, cheques, post office orders, postal orders, and bank drafts. (Bills receivable are excluded from this category, and will be referred to in Part II.) The student should bear in mind that, whilst the Cash Book is generally used as a very convenient place for recording *other* transactions, its proper function is to exhibit a clear account of the receipts and payments of Cash.

LIST OF CASH TRANSACTIONS.

1901.		£	s.	d.
Jan. 1	Received from Skelton & Son	24	10	0
,, 5	Paid to Hy. Bottomley	15	9	6
,, 10	Received from Bradbury Bros.	18	15	3
,, 14	Paid to Proctor & Co.	24	9	0
,, 18	Paid to Walter King	2	10	0
,, 23	Received from W. Wardle	13	19	2
,, 25	Received from Joseph Wood	8	14	8
,, 28	Paid to R. Storey	3	12	6
,, 29	Paid to Geo. Durham & Co.	1	18	0
,, 30	Received from Benj. Brown	4	19	8
,, 30	Received from Taylor & Smith	11	10	0
,, 31	Paid to Alf. Middleton	7	15	3

These transactions are shown in the following Cash Book, which is arranged in the simplest form, the left-hand page being used for entries of "Cash Received" and the right-hand page for entries of "Cash Paid." This form is the same as that of the Cash Account described in Chapter I, with the additions of columns on each side for the Ledger folio numbers.

CASH BOOK.

1 — *Dr.* — *Cr.* — 1

1901			Ledl. fo.	£	s.	d.	1901			Ledl. fo.	£	s.	d.
Jan.	1	To Skelton & Son		24	10	0	Jan.	5	By Hy. Bottomley		15	9	6
	10	,, BradburyBros.		18	15	3		14	,, Proctor & Co.		24	9	0
	23	,, W. Wardle ..		13	19	2		18	,, Walter King...		2	10	0
	25	,, Joseph Wood...		8	14	8		28	,, R. Storey ...		3	12	6
	30	,, Benj. Brown...		4	19	8		29	,, Geo. Durham and Co. ..		1	18	0
	,,	,, Taylor & Smith		11	10	0		31	,, Alf. Middleton		7	15	3
								,,	,, Balance carried down ...		26	14	6
				82	8	9					82	8	9
	31	To Balance brought down		26	14	6							

The Cash Book should be entered up immediately a transaction takes place, and the money columns should be added up and carried forward until the time of "balancing" (say monthly) arrives. Both sides of the Book are paged alike, and it will be found in actual practice that the number of items on one side of the book is greater than the number of items on the other side: usually the "Receipts" are more numerous than the "Payments," and when, for example, page 1 is filled up with entries of *receipts* the entries of *both* receipts *and* payments should be resumed on page 2, instead of using page 2 for receipts and page 1 for payments: the reason being that the *dates* of the entries on both sides should correspond, so that the "balance" at any particular date can easily be ascertained.

In the above example the Cash Book is "balanced" and ruled off at the end of the month. In some cases it is better to do this "weekly," and in other cases once a quarter is enough. But whether the Cash Book be balanced weekly, monthly, quarterly, or annually, there is another operation which should *always* be performed "*daily*," i.e., the comparison of the Cash Book with the actual cash in hand. This is a matter which, if neglected, will most certainly lead to error, and probably loss. It is not necessary to add up the Cash Book in ink for this purpose, but a note of the totals may be made on a memorandum slip as follows:—

23 Jan. 1901.		£ s. d.		£ s. d.
	Dr. ..	57 4 5	Note ..	5 0 0
	Cr. ..	42 8 6	Gold ..	8 0 0
			Silver ..	1 15 6
			Copper ..	0 0 5
	Balance ..	14 15 11		14 15 11

On the 23rd January the actual money in the Cash Book is found to agree with the "Cash Book" balance: the slip is retained until the Cash is agreed next time, when it is destroyed and replaced by the new "slip."

The Cash Book entries are posted to the Ledger in this way: the items on the Dr. side of the Cash Book are entered on the Cr. side of the proper account in the Ledger—"By Cash"—and the Cash Book folio number is written in the Ledger. The Ledger folio number is written in the Cash Book in the column provided. The items on the Cr. side of the Cash Book are entered on the Dr. side of the proper account in the Ledger "To Cash," and the respective folios are written as before.

Speaking of the two sides of the Cash Book as Dr. and Cr. sides indicates some resemblance to a Ledger Account. That is just what this book represents, viz., the "Cash Account" kept in a separate volume for greater convenience. Besides being a book of original entry, like the Sales Day Book and Purchases Day Book, it serves all the purposes of the Cash Account, and becomes, in fact, a portion of the Ledger. No *other* Cash Account is therefore necessary, and the effect of using this book in the manner indicated is to dispense with all Journal entries of cash, and with the "Cash Account" in the Ledger itself. This being the case, the balance of the Cash Book, at the time of closing the books, must be treated as though it were a Ledger Account Balance, and must be set forth in the Trial Balance.

It will be obvious in regard to cash transactions, that the double-entry principle is followed throughout, each transaction involving a Dr. entry in the Cash Book and a Cr. entry in the Ledger, or *vice-versa.*

The student having become acquainted with the simple Cash Book, may now learn how its use is extended for the sake of convenience, and the first matter to be explained is "Discount." This term is often used in reference to two very different things —*Trade Discount* and *Cash Discount.* Trade Discount is a

reduction in the nominal price of goods bought or sold; it is usually stated as a reduction upon the Invoice, and is not dependent upon the question of date of payment for the goods. We are now dealing with Cash Discount, which is an allowance made to a person in consideration of the fact that the amount owing by that person is paid punctually—i.e., either upon or before the date when the money is due. A. B. buys goods from C. D. on 1st January, £100, and is allowed to take a month's credit, with 2½% discount. On 1st February he pays £97 10s., and the balance or difference, £2 10s., is the discount. In the Ledger of C. D. the accounts of A. B. and of discount will stand as follow:—

A. B.'s ACCOUNT.

Dr.		£	*s.*	*d.*			*Cr.*	£	*s.*	*d.*
Jan. 1	To goods ...	100	0	0	Feb. 1	By cash ...		97	10	0
					,, 1	,, discount		2	10	0
								100	0	0

DISCOUNT ACCOUNT.

Dr.		£	*s.*	*d.*		*Cr.*
Feb. 1	To A. B. ...	2	10	0		

A. B. having discharged his debt promptly, C. D. is placed in possession of the use of the £97 10s. cash, and is relieved from risk of loss of the debt. C. D. receives this "value," and his "Discount Account" is therefore Dr., A. B. becoming a *Creditor* for that amount.

The effect of discount transactions is as follows:—

Discount allowed *by* the trader:	Discount Account	Dr.
	Personal Account	Cr.
Discount allowed *to* the trader:	Personal Account	Dr.
	Discount Account	Cr.

No separate book of original entry is required for these transactions, for this reason: in almost every instance of a *discount* transaction a *cash* transaction takes place with the *same* person at the *same* time.

This being so, the shortest way of dealing with discounts is to enter them into a separate column in the Cash Book. Supposing

that in the transactions mentioned on page 67 the following discounts were allowed by or to the trader (the amounts of cash remaining as before):—

			£	s.	d.	
Jan.	10	Allowed to Bradbury Bros.	1	4	9	discount
,,	14	Allowed by Proctor & Co.		11	0	,,
,,	23	Allowed to W. Wardle		5	10	,,
,,	29	Allowed by Geo. Durham & Co. ...		2	0	,,
,,	30	Allowed to Taylor & Smith		10	0	,,

The Cash Book would be utilised to record the discounts as below:—

CASH BOOK.

Dr. *Cr.*

1901		Disc'nt £ s. d.	£ s. d.	1901		Disc'nt £ s. d.	£ s. d.
Jan. 1	To Skelton & Son ...		24 10 0	Jan. 5	By Hy. Bottomley		15 9 6
10	,, Bradbury Bros...	1 4 9	18 15 3	14	,, Proctor & Co. ...	11 0	24 9 0
23	,, W. Wardle... ...	5 10	13 19 2	18	,, Walter King ...		2 10 0
25	,, Joseph Wood ...		8 14 8	28	,, R. Storey ...		3 12 6
30	,, Benj. Brown ...		4 19 8	29	,, Geo. Durham and Co. ...	2 0	1 18 0
30	,, Taylor & Smith	10 0	11 10 0	31	,, Alfd. Middleton		7 15 3
				31	,, Balance carried down		26 14 6
		2 0 7	82 8 9			13 0	82 8 9
31	,, Balance brought down... ...		26 14 6				

Goods were sold, say, on 12th December, 1900, to Bradbury Bros., £20. After they have paid cash on 10th January, 1901, the Ledger Account will appear:—

BRADBURY BROS.

1900.		£	s.	d.	1901.		£	s.	d.
Dec. 12	To goods ...	20	0	0	Jan. 10	By cash ...	18	15	3
						,, discount ...	1	4	9
							£20	0	0

The other transactions, including discounts, would be posted in the same way. The discount column on the left-hand side of the Cash Book contains the amounts of discount allowed by trader; the total is inserted at the end of the month. The discount

column on the right-hand side of the Cash Book contains the amounts of discounts allowed to the trader; the total is inserted at the end of the month. No "balance" of these two totals is shown, as in the case of cash, but each total is posted to the

DISCOUNT ACCOUNT.

1901.		C.B.	£	s.	d.			C.B.	£	s.	d.
Jan. 31	To sundries	1	2	0	7	Jan. 31	By sundries	1		13	0

The "double entry" is thus completed, the items making up the £2 0s. 7d. having been posted to the Cr. side of "Sundry Personal Accounts" in the Ledger and to the Dr. side of Discount Account—the 13/- having been posted to the Dr. side of "Sundry Personal Accounts" and to the Cr. side of Discount Account.

If the discount items amount to a substantial sum it is often of advantage to keep two separate Discount Accounts, one for "discounts allowed" and the other for "discounts received."

Occasionally an item of discount is to be recorded when *no* cash transaction occurs: a small difference may arise between the trader and his customer, which is finally settled by the amount in question being allowed as discount. In that case the item may be entered in the Cash Book in the discount column only.

The Cash Book includes entries of transactions between the trader and his banker.

In the next chapter we shall see how the Cash Book is still further modified in order to deal more conveniently and readily with bank transactions. At present we will record these in the simplest way—i.e., money paid into the bank is entered as a credit "By Bank"; money drawn out of the bank entered as a debit "To Bank"; and if a "cheque" is drawn and handed over to any person, the item is entered on both sides of the Cash Book, viz., as received *from* the bank, and paid *to* the person.

Goods sold or bought for cash, called "Cash Sales" and "Cash Purchases," are entered in the Cash Book, and posted therefrom to the Sales Account or Purchases Account in the Ledger. If these transactions are of daily occurrence and numerous, they may with advantage be entered separately in a small subsidiary Cash Book, and only the daily or weekly total entered in the principal Cash Book.

CASH TRANSACTIONS OF JOSEPH MEREDITH.

1901.		£	s.	d.	
June 1	Cash in hand brought into business by J. M.	50	0	0	
,, 4	Received from Henry Ashbourne and Sons	6	13	0	allowed dis., 3/6
,, 8	Paid into the Royal Bank ...	45	0	0	
,, 8	Sold cloth for cash	2	0	0	
,, 8	Paid wages	1	15	0	
,, 10	Paid Ogilvie, Sons & Co. by cheque	24	8	0	received dis., £1 5s.
,, 11	Drew from bank	10	0	0	
,, 11	Paid to Joseph Meredith ...	18	0	0	
,, 12	Received from Thos. Chambers...	10	10	0	allowed dis., 8/4
,, 13	Paid into bank	15	0	0	
,, 14	Sold cloth for cash	6	10	0	
,, 15	Paid wages	1	17	6	
,, 17	Paid Warham Woollen Co. Ltd. by cheque	12	10	0	received dis., 6/8
,, 18	Received from Scott & Kingsley on account	5	0	0	
,, 22	Sold cloth for cash	4	15	6	
,, 22	Paid wages	1	10	0	
,, 24	Paid into bank	10	0	0	
,, 26	Paid for warehouse furniture by cheque	18	0	0	
,, 29	Sold cloth for cash	12	4	0	
,, 29	Paid rent	6	10	0	
,, 29	Paid wages	1	12	6	

The following is the Cash Book of Joseph Meredith :—

CASH BOOK.

1 — *Dr.* — 1

1901			£	s.	d.	£	s.	d.
June 1	To Joseph Meredith (Capital A/c)	11				50	0	0
4	,, H. Ashbourne and Sons ...	1	3	6		6	13	0
8	,, Cash Sales ...	14				2	0	0
10	,, Royal Bank ...	12				24	8	0
11	,, ,, ...	12				10	0	0
12	,, Thos. Chambers	3	8	4		10	10	0
14	,, Cash Sales ...	14				6	10	0
17	,, Royal Bank ...	12				12	10	0
18	,, Scott & Kingsley	4				5	0	0
22	,, Cash Sales ...	14				4	15	6
26	,, Royal Bank ...	12				18	0	0
29	,, Cash Sales ...	14				12	4	0
			11	10		162	10	6
			Led. 19					
29	,, Balance brought down					6	7	6

Cr. — 1

1901			£	s.	d.	£	s.	d.
June 4	By Royal Bank ...	12				45	0	0
8	,, Wages	16				1	15	0
10	,, Ogilvie, Sons and Co. ...	7	1	5	0	24	8	0
10	,, Joseph Meredith	11				18	0	0
13	,, Royal Bank ...	12				15	0	0
15	,, Wages	19				1	17	6
17	,, Warham Woollen Co., Ltd.	8	6	8		12	10	0
22	,, Wages	16				1	10	0
24	,, Royal Bank ...	12				10	0	0
26	,, Furniture ...	17				18	0	0
29	,, Rent	18				6	10	0
29	,, Wages	16				1	12	6
29	,, Balance carried down ...					6	7	6
			1	11	8	162	10	6
			Led. 19					

EXERCISE 18.

Write up in the Cash Book (according to the examples given on page 73) the following transactions of RALPH THORNEYCROFT:—

1901.		£	s.	d.	
May 1	Cash in hand at commencement	85	10	6	
,, 3	Paid to London City & Midland Bank, Ltd.	70	0	0	
,, 7	Received from Whitehead & Co.	24	13	0	allowed dis. 12/4
,, 8	Paid to James Peacock	31	15	0	received dis. 25/-
,, 11	Sold goods for cash	9	10	3	
,, 13	Paid to bank	15	0	0	
,, 15	Received from Hy. Monteith ...	3	12	0	
,, 17	Paid to Davidson Bros. by cheque	46	10	0	received dis. 30/-
,, 18	Paid Eade & Co. Ltd.	2	7	6	received dis. 2/6
,, 20	Received from Easthams & Sons	12	3	9	allowed dis. 6/3
,, 22	Sold goods for cash	1	11	8	
,, 25	Paid trade expenses	5	14	3	
,, 27	Received from Rawlinson & Sykes	21	10	0	allowed dis. 10/6
,, 29	Received from Laird & Co. ...	3	15	0	allowed dis. -/9
,, 30	Sold goods for cash	1	15	4	
,, 31	Paid to bank	32	0	0	

EXERCISE 19.

Write up in the Cash Book, balanced monthly, the following transactions of THOMAS WAILES.

1901.		£	s.	d.	
April 1	Cash in hand at commencement	19	15	6	
	Received from Wm. Pratt & Sons (on account)	15	0	0	
,, 2	Paid to Union Bank, Ltd. ...	15	0	0	
,, 7	Received from Jonas Smith ...	5	2	1	allowed dis. 2/7½
,, 10	Paid to Keen & Sons by cheque on Union Bank, Ltd. ...	13	8	7	received dis. 11/8
	Paid for Petty Cash	5	9	1	
,, 11	Received from Union Bank, Ltd.	10	0	0	
,, 22	Received for cash sales	2	3	11	
	Paid to Union Bank, Ltd. ...	2	3	11	
	Paid to T. Gill & Co. Ltd. ...		8	7	received dis. -/3
,, 30	Paid for wages	9	5	0	
May 3	Received from Allison Ltd. ...	1	11	2	allowed dis. -/9
,, 9	Received from Hy. White & Co.	15	16	4	allowed dis. 7/3
	Paid to Frundle & Booth by cheque on Union Bank, Ltd.	5	2	1	
	Paid to Geo. Brayshaw by cheque on Union Bank, Ltd. ...	18	3	4	received dis. 9/1
,, 23	Received for cash sales	4	1	8	
,, 29	Received from Wm. Mawson ...	27	13	6	allowed dis. 13/9
	Paid Union Bank, Ltd.	27	13	6	
,, 31	Paid for Petty Cash	4	3	7	
	Paid for wages	9	5	0	
	Paid J. Gunston for quarter's rent	10	10	0	
June 4	Received from Joseph Ely, Ltd.	4	9	2	
,, 6	Received from Hy. Thompson and Co.	17	3	0	allowed dis. 8/9
	Received from Jacques & Co. Ltd.	5	8	0	allowed dis. 2/9
,, 7	Paid to Union Bank, Ltd. ...	27	1	11	
	Paid annual subscription to St. James's Institute		10	6	
,, 24	Received for cash sales	3	8	11	
	Received from Brown & Co. ...	1	2	3	
	Paid to Thomas Bros., by cheque on Union Bank Ld.	14	16	5	received dis. 7/7
	Paid to Pratt & Trees by cheque on Union Bank Ld.	2	1	7	received dis. 1/5
	Paid to Hillam, Mathews & Co. by cheque on Union Bank Ld.	9	8	2	
,, 30	Paid for wages	9	5	0	
	Cash in hand to-day	11	19	5	

CHAPTER XII

The Cash Book—*continued*

The Cash Book is frequently used not only to record the receipts, payments, and discount transactions, but also to exhibit in separate columns the account between the trader and his banker. Nowadays, almost every trader has a Banking Account, largely in consequence of the growth of the number of banks with branches in outlying districts; the use of cheques as a means of payment has enormously increased, and the greater convenience and safety attendant upon the employment of Banks is more fully recognised.

When Bank transactions are only few in number, the Bank Account may be written up in the Ledger in the same manner as any other personal account, but if the bank transactions are numerous, the labour of posting to the Ledger is avoided by adding two money columns to the Cash Book and keeping the Bank Account in those columns. The form of the Cash Book arranged for this purpose is:—

CASH BOOK.

Dr.						*Cr.*				
		Disc'nt *Dr.*	Cash *Dr.*	Bank *Dr.*			Disc'nt *Cr.*	Cash *Cr.*	Bank *Cr.*	

In the money columns the headings are inserted *Dr.* and *Cr.* in order to show more clearly the use of the columns. Strictly speaking, the title of this book should be now not "Cash Book," but "Cash and Bank Accounts."

The bank column on the left-hand side is to contain all amounts "paid into the bank," and for which the bank is *Dr.* (including interest allowed by the bank). The bank column on the right-hand side is to contain all amounts "paid by the bank," or "drawn out of the bank" (including interest, commission, &c., *charged* by the bank), and for which the bank is creditor.

If money is paid into the bank out of the cash in hand, it is to be entered on the Dr. side (bank column) as *paid to bank*, and also on the Cr. side (cash column), as *paid by the cash.*

If money is drawn from the bank for the use of *cash*, it is to be entered on the Dr. side (cash column) as *paid to cash*, and also on the Cr. side (bank column) as *paid by the bank.*

The following examples should be compared with the Cash Book shown below as illustrations of the mode of dealing with each kind of transaction :—

1901.		£	*s.*	*d.*		£	*s.*	*d.*
June 1	Alfred Darwin commenced with cash in hand	200	0	0				
,, 4	Paid into bank	150	0	0				
,, 6	Received from Rawson & Glen (which is paid into bank) ...	76	0	0	discount	4	0	0
,, 8	Paid J. Metcalfe cheque ...	58	10	0	discount	1	10	0
,, 10	Paid Palmer Bros. cash	14	17	6				
,, 12	Received from Holt & Sons and paid into bank	35	0	0	discount	2	0	0
,, 14	Paid T. Greenwood & Co. cash...	20	0	0	discount	1	0	0
,, 15	Drew cash from bank	15	0	0				
,, 18	Paid Brooksbank Bros. cheque...	142	10	0	discount	7	10	0
,, 20	Paid for horse, cash	24	0	0				
,, 24	Received from Wormald & Son cash	2	10	0	discount		1	6
,, 29	Bank allow interest		2	6				
,, 29	Bank charge commission ...		5	0				

(See Cash Book, p. 78.)

CASH BOOK.

Dr. *Cr.*

1901		Discount. £	s.	d.	Cash. £	s.	d.	Bank. £	s.	d.	1901		Discount. £	s.	d.	Cash. £	s.	d.	Bank. £	s.	d.
June 1	To A. Darwin ...				200	0	0				June 4	By Bank				150	0	0			
4	,, Cash							150	0	0	8	,, J. Metcalfe ...	1	10	0				58	10	0
6	,, Rawson & Glen	4	0	0				76	0	0	10	,, Palmer Bros. ...				14	17	6			
12	,, Holt & Son ...	2	0	0				35	0	0	14	,, T. Greenwood and Co.	1	0	0	20	0	0			
15	,, Bank				15	0	0				15	,, Cash							15	0	0
24	,, Wormald & Son		1	6	2	10	0				18	,, Brooksbank Bros.	7	10	0				142	10	0
29	, Interest							2	6		20	,, Horse				24	0	0			
											29	,, Commission ...							5	0	
											,,	,, Balance down ...				8	12	6	44	17	6
		6	1	6	217	10	0	261	2	6			10	0	0	217	10	0	261	2	6
29	To Balance				8	12	6	44	17	6											

Explanation of the above entries :—

June 1. £200. Cash in hand entered in "cash" column, the money being received by the business.
„ 4. £150. Entered on *both* sides—the bank *receives*, the cash *pays* (bank Dr., cash Cr.).
„ 6. £76. The bank *receives* this (bank Dr.).
„ 8. £58 10s. The bank *pays* this (bank Cr.).
„ 10. £14 17s. 6d. The cash *pays* this (cash Cr.).
„ 12. £35. The bank *receives* this (bank Dr.).
„ 14. £20. The cash *pays* this (cash Cr.).
„ 15. £15. Entered on *both* sides—the cash *receives*, the bank *pays* (cash Dr., bank Cr.).
„ 18. £142 10s. The bank *pays* this (bank Cr.).
„ 20. £24. The cash *pays* this (cash Cr.).
„ 24. £2 10s. The cash *receives* this (cash Dr.).
„ 29. 2/6 interest allowed by the bank, and shown in the Bank Pass Book to the credit of Alfred Darwin (bank Dr.).
„ 29. 5/- commission charged by the bank for working the account, and shown in the Bank Pass Book to the debit of Alfred Darwin (bank Cr.).

The entries on June 4th and June 15th are ticked (v) in the folio column, which indicates that they are each equalised by the entries on the opposite sides of the Cash Book. All the other entries are to be posted to the Ledger, the items in the bank columns being posted in exactly the same manner as if they had been in the cash column. For example, the entry on June 6th of £76, received from Rawson & Glen, is posted in the Ledger :—

RAWSON & GLEN.

Dr.			£	s.	d.
	June 6	By cash* ...	... 76	0	0
	„ 6	„ discount	... 4	0	0

When the Cash Book is kept in this form, with bank columns, there is generally no necessity to have any account in the Ledger

(* It is unnecessary to distinguish in the Ledger between money received and retained in the cash box and money received and paid at once into bank.)

for *Bank*, but if for any reason it is thought undesirable to show in the Cash Book how the Bank Account stands, the matter is dealt with in this way. An account is opened in the Ledger named "Bank Account," and the monthly totals of the transactions are posted thereto from the Cash Book, as below, the bank column in the Cash Book being *not* balanced as in the example given above, but simply added on each side in the same way as the discount columns are added, but not balanced.

BLANKSHIRE BANKING CO. LTD.

Dr.												*Cr.*
1901.		C.B.	£	*s.*	*d.*	1901		C.B.	£	*s.*	*d.*
June 29	To Sundries	1	261	2	6	June 29	By Sundries	1	216	5	0

This Bank Account will therefore contain monthly entries only, and will be balanced at the end of the half-year or year.

EXERCISE 20.

Write up in the Cash Book, with columns for discount, cash and bank, the following transactions of URIAH HEEP; balance the cash and bank columns on May 31st.

1901.		£	s.	d.		£	s.	d.
May 1	Cash in hand	27	15	9				
,, 2	Paid into the Canterbury Bank Ltd.	20	0	0				
,, 3	Sold goods for cash	2	9	6				
,, 4	Paid advertisements		4	9				
,, 6	Paid by cheque, W. Micawber and Son	15	4	3	discount		5	9
,, 7	Received from Steerforth Bros., and paid into bank	18	10	0	discount	1	10	0
,, 9	Received from Thos. Traddles, cash	3	16	8	discount		3	4
,, 11	Bought goods for cash	8	10	0				
,, 14	Received from Barkis, Willing and Co.	3	18	0	discount		2	0
,, 18	Paid for Coals	1	10	6				
,, 20	,, to self (U. Heep)	3	15	8				
,, 22	Received from Joseph Creadle ...	5	17	0	discount		3	0
,, ,,	Received for goods sold	1	15	0				
,, ,,	Paid into bank the last two items							
,, 23	Paid Hy. Omer & Son, cash ...	3	0	0				
,, 24	Cash drawn from bank	5	0	0				
,, 27	Paid Spenlow & Jorkins by cheque	18	15	0	discount	1	5	0
,, 31	Paid sundry expenses	2	16	9				

EXERCISE 21.

Write up as in Exercise 20, the transactions of Alfred Maldon, balancing the cash and bank columns at the end of each month.

1901.		£	s.	d.		£	s.	d.
Jan. 1	Cash in hand	15	18	3				
,, ,,	Cash at bank...	587	16	2				
,, 5	Goods sold for cash	2	18	4				
,, 7	Paid for goods by cheque ...	38	10	0				
,, 10	Received from Littimer Bros. and paid bank	114	16	3	discount	2	13	9
,, 14	Paid cheque to Saml. Chillip ...	85	10	0	discount	4	10	0
,, 18	Paid Trotwood & Co., cash ...	4	18	9	discount	0	1	3
,, 24	Bought goods for cash	5	3	8				
,, 26	Paid for fixtures by cheque ...	55	10	0				
,, 30	Cash drawn from bank	30	0	0				
,, 31	Paid wages and expenses ...	27	10	0				
Feb. 2	Paid gas account	1	14	3				
,, 5	Paid R. Waterbush & Co. Ltd. cheque...	236	0	0	discount	11	15	0
,, 9	Bought goods for cash	3	18	0				
,, 12	Received from Hy. Spiker & Sons	7	16	4				
,, 16	Paid Walker & Tipp	5	16	0	discount	0	6	0
,, 19	Sold goods for cash	15	12	9				
,, 23	Received from Mell & Sharp, and paid bank	49	13	4	discount	2	6	8
,, 26	Paid Arthur Brooks by cheque...	157	10	0	discount	7	15	0
,, 28	Paid wages and expenses ...	19	15	0				
Mar. 2	Received from J. W. Quinion and Co., cash...	7	16	0	discount	0	4	0
,, 4	Received from Walter Gayford and Sons, and paid bank ...	150	0	0				
,, 7	Paid Poor Rate	2	14	9				
,, 9	Alf. Maldon withdraws by cheque on bank	25	0	0				
,, 12	Cheque drawn for office cash ...	15	0	0				
,, 14	Paid agent's commission ...	12	10	0				
,, 18	Bought goods for cash	4	17	6				
,, 20	Received from Morland Bros., and paid bank	72	10	0	discount	3	0	0
,, 22	Received from T. C. Crowther...	4	2	6	discount	0	2	6
,, 26	Sold goods for cash	2	11	10				
,, 27	Paid, by cheque, Fire Insurance Premium	7	10	0				
,, 29	Received from H. W. Newhouse	6	3	6	discount	0	6	6
,, 30	Paid wages and expenses ...	15	17	6				

CHAPTER XIII

Petty Cash Book

In most businesses there are frequently small payments of cash for incidental expenses, and in a large concern these items are very numerous, and are often paid by different persons in the different branches or departments of the business. It therefore becomes inconvenient, if not impossible, to record these petty transactions in the chief Cash Book as they occur, and so the Petty Cash Book is employed for the purpose. There are several systems in vogue, but only the best need be described here, viz., the "Imprest System," which is the most convenient for businesses in which the amount spent in petty cash does not vary to any very considerable amount. Say the amount usually required in a month is £20, the cashier pays this sum to the individual who is to have charge of the petty cash, the £20 being entered in the Cash Book :—

1901.		£	*s.*	*d.*
Jan. 1	By petty cash	20	0	0

and posted to an account in the Ledger as follows :—

THOMAS RITCHIE (petty cashier)

1901.		£	*s.*	*d.*
Jan. 1	To cash	20	0	0

Thomas Ritchie (the person in charge of the petty cash) records the daily expenditure of this money in a Petty Cash Book (p. 84), which is a *record of payments only.* Say that he spends in January £17 15s. 9d.: on 31st January his book is added up, and the cashier hands to him £17 15s. 9d., which is entered in the Cash Book.

1901.		£	*s.*	*d.*
Jan. 31	By payments per Petty Cash Book	17	15	9

Thomas Ritchie has now £20 in his hands again, for which he remains debtor as per his Ledger Account ; this account remaining unaltered so long as the £20 is found to be adequate for the

requirements of the business. The £17 15s. 9d. is posted from the Cash Book either to the "Trade Expenses Account" or, if desired, to the various sub-divisions of that account according as the money has been expended.

The following is a form of Petty Cash Book arranged to show the analysis of the payments into "postage," "carriage," "repairs," and "stationery." The number of analysis columns may be increased to any desirable extent. The same procedure is observed with *each* person (if more than one) who may have "petty cash" in his hands.

PETTY CASH BOOK—THOMAS RITCHIE.

Date.		Particulars.	Amount Paid.			Analysis.											
						Postage.			Carriage.			Repairs.			Station'ry		
1901			£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Jan.	1	Stamps	2	10	0	2	10	0									
	2	Window Repairing ...		2	0								2	0			
	5	Parcel from Stubbs and Co.		7	6					7	6						
	,,	New Locks and fixing		6	4								6	4			
	7	3 Bottles Ink		4	9											4	9
	8	Plumber: Gas escape		3	6								3	6			
	,,	Postal Wrappers ...	2	10	0	2	10	0									
	9	2 Letter Baskets ...		1	6											1	6
	10	Blotting Paper ...		15	0											15	0
	11	Cash Book		6	0											6	0
	12	Rubber dating Stamps		10	6											10	6
	14	Parcels Post		4	9					4	9						
	15	Repairing Bells ...		7	6								7	6			
	16	Stamps	1	10	0	1	10	0									
	17	Parcel to Hailey, Hull		4	3					4	3						
	18	Screws and Nails ...		2	0								2	0			
	19	2 Rulers		1	8											1	8
	21	Parcel from Hall, Wakefield		1	6					1	6						
	22	Whitehead, Joiner ...	1	15	8							1	15	8			
	23	Stamps & Post Cards	2	0	0	2	0	0									
	24	Parcel to Upper Norwood		6	0					6	0						
	25	Foreign Envelopes ...		3	9											3	9
	26	Rawlins, Plumber ...		13	0								13	0			
	28	Parcel to Williams, Huddersfield ...		2	0					2	0						
	29	Directory, 1901 ...		12	6											12	6
	30	Postal Wrappers and Cards	1	0	0	1	0	0									
	31	Parcels Post		14	1					14	1						
		Cash Book, fo. 1 ...	17	15	9	9	10	0	2	0	1	3	10	0	2	15	8
		Ledger folios...				24			22			35			40		

In this example it is assumed that Ledger Accounts are opened for postage, carriage, repairs, stationery ; the above payments will be posted as follows :—

Dr. (Fo. 24)	POSTAGE ACCOUNT.				(Fo. 24) *Cr.*
1901.		£	*s.*	*d.*	
Jan. 31	To Petty Cash ... 1 ...	9	10	0	

(Fo. 28)	CARRIAGE ACCOUNT				(Fo. 28)
1901.		£	*s.*	*d.*	
Jan. 31	To Petty Cash ... 1 ...	2	0	1	

(Fo. 35)	REPAIRS ACCOUNT.				(Fo. 35)
1901.		£	*s.*	*d.*	
Jan. 31	To Petty Cash ... 1 ...	3	10	0	

(Fo. 40)	STATIONERY ACCOUNT.				(Fo. 40)
1901.		£	*s.*	*d.*	
Jan. 31	To Petty Cash ... 1 ...	2	15	8	

The folio of the Petty Cash Book will then be inserted in the Cash Book opposite the £17 15s. 9d. on 31st Jan., the above four debit entries in the Ledger equalising the one credit entry in the Cash Book.

EXERCISE 22.

Write up in a Petty Cash Book the following payments with three analysis columns for "Postage and Stationery," "Carriage," and "Sundry Expenses," showing the totals :—

1901.—Feb. 1st, G.N.R., carriage, 4/9 ; 2nd, envelopes, 3/6 ; 4th, stamps, 10/- ; 5th, Painter's bill, 13/9 ; 6th, parcel to Yarmouth, 2/8 ; 7th, letter book, 4/6 ; 8th, pens, 1/9 ; 9th, chimney sweep, 2/- ; 11th, tram fares, 1/- ; 12th, telegram, 9d. ; 13th, Globe Parcel Express, 2/9 ; 14th, advertisement, 3/10 ; 15th, "Journal of Commerce," 5/- ; 16th, stamps, 10/- ; 18th, cash box, 7/6 ; 19th, parcel to Dover, 4/6 ; 20th, invoice forms, 8/6 ; 21st, foolscap, 3/- ; 22nd, post cards, 10/- ; 23rd, Mid. Rly., carriage, 13/8 ; 25th, firewood, 5/- ; 26th, advertisement, 3/6 ; 27th, memorandum books, 2/- ; 28th, parcel to Glasgow, 5/10.

EXERCISE 23.

Write up in a Petty Cash Book the following payments, with five analysis columns for "Travelling Expenses," "Carriage," "Postage and Telegrams," "Goods," "Sundry Expenses," shewing totals.

1901.—March 1st, goods, 17/8 ; 2nd, cable to New York, 12/6 ; 4th, stamps, £1 ; 5th, goods, 15/8 ; 6th, expenses to Liverpool, £3 10s. ; 7th, L. & N.W. Rly., carriage, 19/8 ; 8th, advertisement, 5/- ; 9th, ledger, 17/6 ; 11th, expenses to Birmingham, £2 14s. 6d. ; 12th, stamps, £2 ; 13th, Postal guide, 6d. ; 14th, goods, 14/11 ; 15th, subscription to Ambulance Fund, 10/6 ; 16th, newspapers, 2/3 ; 18th, expenses to Leicester, £1 17s. 3d. ; 19th, goods, 12/8 ; 20th, horse shoeing, 4/3 ; 21st, fire extinguishers, 13/4 ; 22nd, parcel to Southampton, 6/9 ; 23rd, advertisement, 4/8 ; 25th, goods, 10/3 ; 26th, stamps, £2 ; 27th, expenses to Nottingham, £2 5s. ; 28th, post cards, 5/- ; 29th, parcels post, 3/5 ; telephone trunk calls, 5/3.

CHAPTER XIV

The Ledger

We must turn our attention again to Joseph Meredith's transactions, which we have followed in previous chapters through the books of Original Entry, and observe how the entries are posted into their respective accounts in the Ledger, and how those accounts are "closed."

At this stage we are dealing with the Ledger as one book (in Part II the manner of dividing the Ledger into several volumes will be described), and the following points should be noticed in connection with the use of this book:—

(1) Space should be economised. It is always an inconvenience when a new Ledger has to be opened and the accounts transferred to it from the old one. A good book-keeper will so arrange the accounts and the methods of ruling off, &c., as to make the book last twice as long as it would if carelessly kept.

(2) As a general rule *details* of goods sold need not be shown in the Ledger in posting to the customer's account: but in certain cases it *is* necessary to state the details as given in the Sales Day Book. This is especially the case in a business where a customer is in the habit of ordering goods "as supplied on some previous occasion," he does not always state the exact date of the previous sale, and, therefore, it is probably necessary to refer to several sales to him in order to find exactly what he requires, and the price charged, &c.

(3) Any difference which may arise between the trader and his customer as to discount, returns, packages, overcharges &c., should be looked into and settled without delay. If the difference is allowed to remain undisposed of, the chances of obtaining payment become less and less.

(4) The amount of credit given to a customer (as to whose trustworthiness there may be any doubt) should be carefully watched, and the Ledger should be referred to, before executing a large order from him, to see if he is overstepping the amount considered safe. This is one reason why it is so important that the Ledger be kept posted *up to date.*

(5) When a page of the Ledger (say 28) is filled up, and the account is continued on another page later on (say 101), the new folio should be inserted in the index. The totals of the former page should be written in ink (not pencil) and carried forward to the new page.

(6) In posting to the credit side of the Ledger, it is often more convenient to place the book from which the posting is being done on the desk to the right-hand side of the Ledger, and *vice-versâ*. This applies more particularly to the posting from the Cash Book, and helps to prevent posting to the wrong side of the Ledger account.

(7) Scratching out, or altering one figure into another, should be always avoided. If a mistake is made, the neatest way is to rule through the wrong figure or figures and re-write the correct amount above.

(8) The folio of the book of original entry should always be inserted with each posting in the Ledger. The nature of the entry as "To goods" or "By cash" sufficiently indicates the book from which the entry comes, so no initials need be written in order to describe such books. When the posting is from the Journal, "J" may be added in the Ledger, as comparatively few entries are Journalised.

(9) The addresses should be shown in the case of personal accounts, and telegraphic addresses or telephone numbers are often usefully noted also. Any definite information affecting the solvency of any customer, such as the fact that he has suffered loss by being a large creditor of some bankrupt, should be carefully noted in red ink; also such items as the death or retirement of a partner in a firm, dissolution of partnership, &c., may be recorded. By attention to these and other similar matters, the Ledger, instead of being a bare record of account, may be made to afford a large amount of information, which can be turned to advantage when required, without loss of time in searching in other quarters.

(10) The Index should be carefully kept, and if the Ledger is a large one, containing many accounts, it is better to have the index *separate*, i.e., not bound up with the Ledger.

If the accounts are very numerous, the Vowel Index arrangement should be used, in order to facilitate the finding of a name quickly. The Vowel Index means that the names are entered

in six groups, according to the first vowel in the name (after the initial letter). The D page of the index should be entered up, for example, as follows:—

Daniels Bros.	28	Denholm & Co.	32
Dartmouth Colliery Co.	73	Dewsbury Mill Co. ...	48
Dashwood & Son... ...	140	Derham & Son	54
Dayson, Hy.	198		
Dixon, W.	41	Dombey & Son	38
Didsbury Co-op. Society	59	Doncaster Stores, Ltd. ...	46
Dimple, Josh.	75	Donaldson, David ...	78
Diamond, Jas.	154	Dodsworth, Thomas ...	89
		Dorrington & North ...	95
Dunsford & Sons... ...	23	Dymond, W. & Co. ...	81
Du Croix & Fils	25	Dyewood & Co. Ltd. ...	93
Durand & Hall	43	Dyson Bros.	134

The town may also be inserted if it is found to be more convenient, but the index should not be encumbered with full addresses. Special arrangements of the Ledger and method of classifying accounts in various ways will be explained in Part II.

The transactions of JOSEPH MEREDITH, as stated in Chapters VIII to XI are posted to the

LEDGER.

1 — *Dr.* HY. ASHBOURNE & SONS, 7, Arundel Street, Bradford. *Cr.* — 1

19				£	s.	d.	19				£	s.	d.
June	1	To Goods ...	1	6	16	6	June	4	By Cash	1	6	13	0
								4	,, Dis.	1		3	6

2 — *Dr.* MITCHELL & CO., Mayfield Square, Hull. *Cr.* — 2

19				£	s.	d.	19				£	s.	d.
June	5	To Goods ...	1	19	18	10	June	10	By Returns ...	1		8	4

3 — *Dr.* THOMAS CHAMBERS, 3, Cannon Street, Leicester. *Cr.* — 3

19				£	s.	d.	19				£	s.	d.
June	5	To Goods ...	1	10	18	4	June	12	By Cash	1	10	10	0
								12	,, Dis.	1		8	4

4 — *Dr.* — SCOTT & KINGSLEY, The Stores, Great Yarmouth. — *Cr.* — 4

1901				£	s.	d.	1901				£	s.	d.
June	5	To Goods ...	1	11	7	0	June	18	By Cash	1	5	0	0

5 — *Dr.* — DANIEL DAWSON, James Square, Otley. — *Cr.* — 5

1901				£	s.	d.	1901				£	s.	d.
June	12	To Goods ...	1	31	9	0	June	15	By Returns ...	1	4	7	0

6 — *Dr.* — LUCAS BROS., 159, Union Road, Chesterfield. — *Cr.* — 6

1901				£	s.	d.
June	20	To Goods ...	1	2	7	6

7 — *Dr.* — OGILVIE, SONS & CO., Victoria Mills, Galashiels. — *Cr.* — 7

1901				£	s.	d.	1901				£	s.	d.
June	10	To Cash	1	24	8	0	June	4	By Goods ...	1	25	13	0
		,, Dis.	1	1	5	0							

8 — *Dr.* — WARHAM WOOLLEN CO. Ltd., Leeds. — *Cr.* — 8

1901				£	s.	d.	1901				£	s.	d.
June	11	To Returns, &c.	1	15	7	8	June	5	By Goods ...	1	28	4	4
	17	,, Cash	1	12	10	0							
		,, Dis.	1		6	8							

9 — *Dr.* — HAYWORTH, BOURNE & SONS, Dewsbury. — *Cr.* — 9

1901				£	s.	d.
June	20	By Goods ...	1	9	6	8

10 — *Dr.* — DREWITT BROS., Carlisle. — *Cr.* — 10

1901				£	s.	d.	1901				£	s.	d.
June	29	To Returns ...	1	1	4	0	June	28	By Goods ...	1	7	4	0

11 — *Dr.* — JOSEPH MEREDITH—CAPITAL ACCOUNT. — *Cr.* — 11

19				£	s.	d.	19				£	s.	d.
June	10	To Cash	1	18	0	0	June	1	By Cash	1	50	0	0
								,,	,, Goods in Stock	J			
										1	80	0	0

12 — *Dr.* — THE ROYAL BANK, LIMITED. — *Cr.* — 12

19				£	s.	d.	19				£	s.	d.
June	4	To Cash	1	45	0	0	June	10	By Cash	1	24	8	0
	13	,, ,, ...	,,	15	0	0		11	,, ,, ...	,,	10	0	0
	24	,, ,, ...	,,	10	0	0		17	,, ,, ...	,,	12	10	0
								26	,, ,, ...	,,	18	0	0
								29	,, Balance down		5	2	0
				70	0	0					70	0	0
June	29	To Balance ...		5	2	0							

13 — *Dr.* — SALES ACCOUNT. — *Cr.* — 13

19				£	s.	d.	19				£	s.	d.
June	29	To Returns In ...	1	4	15	4	June	29	By Sundries, per S.D.B. ...	1	82	17	2
								,,	,, Cash Sales fo.	14	25	9	6
											108	6	8

14 — *Dr.* — CASH SALES. — *Cr.* — 14

19				£	s.	d	19				£	s.	d.
June	29	To Transfer to Sales A/c. fo.	13	25	9	6	June	8	By Cash	1	2	0	0
								14	,, ,, ...	,,	6	10	0
								22	,, ,, ...	,,	4	15	6
								29	,, ,, ...	,,	12	4	0
				25	9	6					25	9	6

15 — *Dr.* — PURCHASES ACCOUNT. — *Cr.* — 15

19				£	s.	d.	19				£	s.	d.
June	29	To Sundries, per P.D.B. ...	1	70	8	0	June	29	By Returns Out	1	16	11	8
				70	8	0							

16 — *Dr.* — **WAGES ACCOUNT.** — *Cr.* — 16

19				£	s.	d.								
June	8	To Cash	1	1	15	0								
	15	,, ,, ...	,,	1	17	6								
	22	,, ,, ...	,,	1	10	0								
	29	,, ,, ...	,,	1	12	6								

17 — *Dr.* — **WAREHOUSE FURNITURE ACCOUNT.** — *Cr.* — 17

19				£	s.	d.								
June	26	To Cash	1	18	0	0								

18 — *Dr.* — **RENT, RATES, AND TAXES ACCOUNT.** — *Cr.* — 18

19				£	s.	d.								
June	29	To Cash, Rent ...	1	6	10	0								

19 — *Dr.* — **DISCOUNT ACCOUNT.** — *Cr.* — 19

19				£	s.	d.	19							
June	29	To Sundries, C.B.	1		11	10	June	29	By Sundries, C.B.	1	1	11	8	

20 — *Dr.* — **GOODS ACCOUNT.** — *Cr.* — 20

19				£	s.	d.								
June	1	To Stock... ...	J 1	80	0	0								

21 — *Dr.* — ***PROFIT AND LOSS ACCOUNT.** — *Cr.* — 21

* NOTE.—The postings to the latter account will be made *after* the Trial Balance.

CHAPTER XV

Closing the Books of Joseph Meredith.

The Ledger having been posted up to 29th June, 1901, a list of the balances is prepared, as follows:—

TRIAL BALANCE—29th June, 1901.

	Folio.		Dr.			Cr.		
			£	s.	d.	£	s.	d.
Ledg'r	2	Mitchell & Co.	19	10	6			
	4	Scott & Kingsley	6	7	0			
	5	D. Dawson...	27	2	0			
	6	Lucas Bros.	2	7	6			
	9	Hayworth, Bourne & Sons ...				9	6	8
	10	Drewitt Bros.				6	0	0
	11	Joseph Meredith: Capital Account				112	0	0
	12	Royal Bank Ltd.	5	2	0			
	13	Sales				103	11	4
	15	Purchases	53	16	4			
	16	Wages	6	15	0			
	17	Warehouse Furniture	18	0	0			
	18	Rent, Rates, and Taxes	6	10	0			
	19	Discount					19	10
Cash	20	Goods A/c. Stock, June 1 ...	80	0	0			
Book.	1	Cash...	6	7	6			
			231	17	10	231	17	10

This shows that equal amounts have been posted to each side of the Ledger, and subject to the possibility of errors as indicated on page 37, gives a concise summary of the Ledger, in readiness for the preparation of the Profit and Loss Account, and Balance Sheet.

The balances of Sales and Purchases Accounts are now to be transferred to the Goods Account, by Journal Entries (see p. 95).

It is assumed that immediately after the close of business on June 29th, the stock has been taken and a list prepared in the following form:—

LIST OF STOCK—29TH JUNE, 1901.

Numbers.	Yards.	Description.	Price.	Value.		
				£	s.	d.
12,457	58	Worsted Coating	3/10	11	2	4
11,376	74	,, ,, ...	4/-	14	16	0
	140	Print...	1/4	9	6	8
12,512	20	Box Cloth	5/-	5	0	0
11,958	36	Covert Coating	6/-	10	16	0
14,176	45	Black Vicuna	2/6	5	12	6
10,124	60	Blue Serge	3/-	9	0	0
		Canvas		3	10	0
				69	3	6

The goods in stock are valued either at their cost price, or at a lower price if the market value has fallen since they were purchased.

The value of the stock having been ascertained, its amount is entered on the Cr. side of the Goods Account. The remaining entries are made as follows :—

Balance of the Goods Account to be carried to the Profit and Loss Account by means of a Journal entry.

Amount of stock to be re-entered on the Dr. side of the Goods Account, after closing that account.

Wages, Rent, &c., and Discount Accounts to be closed by carrying their balances to the Profit and Loss Account by means of Journal entries.

Profit and Loss Account to be closed by carrying balance to the Capital Account by means of a Journal entry.

On the 1st June we assume that Joseph Meredith had on hand a stock of goods, value £80. The entry of this item is the only record which is made in the Journal up to the time of closing the books (in this example), the other transactions all having been recorded in their proper books of original entry. After journalising the above items, the Journal will read—

JOURNAL.

19	01				£	s.	d.	£	s.	d.
June	1	Goods Account ... ... *Dr.*	20	80	0	0			
		To Joseph Meredith — Capital Account	11				80	0	0
		For stock of Goods on hand.							
	29	Sales Account ... ... *Dr.*	13	103	11	4			
		To Goods Account	20				103	11	4
		For balance transferred.							
	,,	Goods Account ... ... *Dr.*	20	53	16	4			
		To Purchases Account	15				53	16	4
		For balance transferred.							
	,,	Goods Account ... ... *Dr.*	20	38	18	6			
		To Profit and Loss Account ...	21				38	18	6
		For gross profit.							
	,,	Profit and Loss Account ... *Dr.*	21	13	5	0			
		To Wages Account	16				6	15	0
		,, Rent, &c., Account	18				6	10	0
	,,	Discount Account ... ... *Dr.*	19		19	10			
		To Profit and Loss Account ..	21					19	10
	,,	Profit and Loss Account ... *Dr.*	21	26	13	4			
		To Capital Account	11				26	13	4
				317	4	4	317	4	4

After posting the foregoing Journal entries, the Ledger Accounts affected by these postings will stand as follows, taking the Impersonal Accounts first :—

20 *Dr.* GOODS ACCOUNT. *Cr.* 20

19	01		J	£	s.	d.	19	01		J	£	s.	d.
June	1	To Stock ...	1	80	0	0	June	29	By Sales ...	1	103	11	4
								,,	,, Stock ...	✓	69	3	6
	29	,, Purchases ...	,,	53	16	4							
		,, Profit & Loss											
	,,	Account ...	,,	38	18	6							
				172	14	10					172	14	10
June	29	To Stock ...	✓	69	3	6							

16 — *Dr.* — **WAGES ACCOUNT.** — *Cr.* — 16

19 01			£	s.	d.	19 01			£	s.	d.
June 8	To Cash... ...	1	1	15	0	June 29	By Profit & Loss	J			
15	,, ,, ...	,,	1	17	6		Account ...	1	6	15	0
22	,, ,, ...	,,	1	10	0						
29	,, ,, ...	,,	1	12	6						

18 — *Dr.* — **RENT, RATES, AND TAXES ACCOUNT.** — *Cr.* — 18

19 01			£	s.	d.	19 01			£	s.	d.
June 29	To Cash, Rent...	1	6	10	0	June 29	By Profit & Loss Account ...	J 1	6	10	0

19 — *Dr.* — **DISCOUNT ACCOUNT.** — *Cr.* — 19

19 01		C.B.	£	s.	d.	19 01		C.B.	£	s.	d.
June 29	To Sundries ...	1		11	10	June 29	By Sundries ...	1	1	11	8
,,	,, Profit & Loss Account ...	J 1		19	10						

21 — *Dr.* — **PROFIT AND LOSS ACCOUNT.** — *Cr.* — 21

19 01		J	£	s.	d.	19 01		J	£	s.	d.
June 29	To Wages ...	1	6	15	0	June 29	By Goods A/c.	J			
,,	,, Rent... ...	,,	6	10	0		Gross Profit	1	38	18	6
						,,	,, Discount ..	,,		19	10
			13	5	0						
,,	,, Capital A/c. Nett Profit	,,	26	13	4						
			39	18	4				39	18	4

11 — *Dr.* — **JOSEPH MEREDITH—CAPITAL ACCOUNT.** — *Cr.* — 11

19 01			£	s.	d.	19 01		C.B.	£	s.	d.
June 10	To Cash... ...	1	18	0	0	June 1	By Cash ...	1	50	0	0
29	,, Balance down		138	13	4			J			
						,,	,, Goods ...	1	80	0	0
						29	,, Profit & Loss Account ...	,,	26	13	4
			156	13	4				156	13	4
						June 29	By Balance ...		138	13	4

The student who has carefully followed these transactions up to the point of closing the books, may inquire why the closing entries are not made directly from one account, e.g., the Wages Account, to the Profit and Loss Account, instead of being passed through the Journal. The answer is, that whilst in a simple case of few transactions such as the one under consideration, the Journal might be dispensed with, yet its use tends to reduce the risk of omitting a posting, and the slight additional labour involved is generally more than compensated for by the increased security against such omissions—its use also facilitates the discovery of any error which may cause a "difference" or "disagreement" in the Trial Balance.

The transfer entry from the Cash Sales Account to the Sales Account is an example of "direct entry" without the use of the Journal, these being really portions of the same account. It may, however, be taken as a safe rule to Journalise *every* transfer, in actual practice.

Referring to the Trial Balance, and noting the accounts which have been closed, we find that the remaining accounts are those representing the liabilities and assets of the business: these balances are shown in the Balance Sheet in the following form:—

JOSEPH MEREDITH.

BALANCE SHEET, 29TH JUNE, 1901.

LIABILITIES.	£	s.	d.	£	s.	d.	ASSETS.	£	s.	d.	£	s.	d.
To Creditors:—							By Debtors:—						
Hayworth, Bourne and Sons ...	9	8	8				Mitchell & Co. ...	19	10	6			
Drewitt Bros. ...	6	0	0	15	6	8	Scott & Kingsley	6	7	0			
							D. Dawson ...	27	2	0			
							Lucas Bros. ...	2	7	6	55	7	0
To Capital Account				138	13	4							
							By Cash:—						
							Royal Bank Ltd.	5	2	0			
							In hand	6	7	6	11	9	6
							By Warehouse Furniture ...				18	0	0
							By Stock of Goods				69	3	6
				154	0	0					154	0	0

The preparation of the Balance Sheet is the final step in Double Entry Book-keeping: nothing further remains to be done in the Ledger, and the Accounts remain in their present state until entries of July transactions are posted.

The Student who has perused these chapters and worked out the various exercises carefully, will, it is hoped, have obtained a good idea of the Theory and Practice of Book-keeping, and will have little difficulty in following the more complex matters of Account in the subsequent stages. In applying to practical purpose any knowledge he may have gained, he should keep in view the three things to be remembered:—

Accuracy
Promptitude
Neatness

the greatest of which is:—

ACCURACY.

EXERCISE 24.

Write up in the Cash Book, Sales and Purchases Day Books, and Journal the following transactions of George Hilton. Post to Ledger, prepare Trial Balance, Profit and Loss Account, and Balance Sheet at 28th February, 1901.

1901.		£	s.	d.
Jan. 1	Cash at commencement	8	7	6
,, 10	Bought goods of W. Musgrave & Co. ...	17	10	0
,, 17	Sold goods to J. Saunders	3	18	4
,, 22	Bought goods of W. Musgrave & Co. ...	2	6	8
,, 30	Paid trade expenses		15	6
,, 30	Paid wages	3	10	0
,, 30	Sold goods to J. Saunders	9	11	0
Feb. 6	Sold goods for cash	1	3	9
,, 11	Bought goods of L. C. Jervis	6	8	2
,, 12	Paid rent	2	15	0
,, 16	Sold goods to H. Naylor & Sons	4	19	6
,, 18	Sold goods to J. Saunders	1	6	5
,, 20	Received cash from J. Saunders	14	15	9
,, 23	Bought goods of L. C. Jervis	4	17	8
,, 23	Paid cash to L. C. Jervis	11	5	10
,, 25	Bought goods for cash		16	11
,, 25	Bought goods of W. Musgrave & Co. ...	1	19	8
,, 26	Sold goods to H. Naylor & Sons	26	6	2
,, 28	Paid wages	3	10	0
,, 28	Paid trade expenses		18	0
,, 28	No stock on hand.			

EXERCISE 25.

Write up in the Cash Book, Sales and Purchases Day Books, and Journal the following transactions of Wm. Hy. Meadows. Post to Ledger, prepare Trial Balance, Profit and Loss Account, and Balance Sheet at 30th March, 1901.

1901.		£	s.	d.		£	s.	d.
Jan. 1	Cash, £15 10s., and stock, £38 16s. 8d., at commencement.							
,, 5	Sold goods to Jardine & Sons ...	6	2	3				
,, 7	Bought goods for cash	1	11	6				
,, 9	Bought goods of T. Milnes & Co.	9	4	2				
,, 12	Sold goods to F. & S. Read ...	14	19	6				
,, 28	Sold goods to Jardine & Sons ...	5	0	9				
,, 28	Paid trade expenses	1	10	0				
,, 31	Paid wages...	5	15	0				
Feb. 1	Paid rent	3	6	8				
,, 2	Sold goods to F. & S. Read ...	17	2	6				
,, 2	Bought goods of T. Milnes & Co.	10	10	0				
,, 6	Received cash of F. & S. Read ...	30	10	0	discount	1	12	0
,, 11	Sold goods for cash	2	3	6				
,, 13	Bought goods of John Hill & Son	11	9	2				
,, 15	Paid cash to T. Milnes & Co. ...	19	4	6	discount		9	8
,, 16	Bought goods of B. Rhodes & Co.	7	2	2				
,, 20	Sold goods to Jardine & Sons ...	9	1	8				
,, 22	Received (on account) from Jardine & Sons	10	0	0				
,, 28	Bought goods of John Hill & Son	2	6	3				
,, 28	Paid wages...	5	15	0				
Mar. 8	Sold goods to S. & B. Widdop ...	4	8	9				
,, 11	Paid trade expenses	2	5	0				
,, 15	Received cash of S. & B. Widdop	4	4	6	discount		4	3
,, 19	Sold goods to Jardine & Sons ...	1	18	6				
,, 20	Paid cash to John Hill & Son ...	13	9	0	discount		6	5
,, 23	Received cash of Jardine & Sons	11	17	0	discount		6	2
,, 29	Paid wages...	5	15	0				
,, 30	Stock on hand	48	2	6				

EXERCISE 26.

Write up in the Cash Book, Sales and Purchases Day Books, Returns Books, and Journal the following transactions of Robert Caldecott. Post to Ledger, prepare Trial Balance, Profit and Loss Account, and Balance Sheet at 30th March, 1901.

1901.		£	s.	d.		£	s.	d.
Jan. 1	Cash, £15 18s. 6d., and stock, £42 8s. 9d., at commencement.							
,, 8	Sold goods to S. Ridsdale & Co.	7	8	2				
,, 18	Sold goods for cash	1	10	3				
,, 20	S. Ridsdale & Co. return goods...		16	6				
,, 24	Bought goods of Joshua Firth, Ltd.	16	13	8				
,, 26	Sold goods to S. Ridsdale & Co.	23	8	7				
,, 31	Paid wages...	5	2	6				
,, 31	Paid trade expenses		15	3				
Feb. 1	Sold goods to F. Durrant & Co.	9	16	0				
,, 2	Received from S. Ridsdale & Co.	29	5	0	discount	15	3	
,, 2	Paid into County Bank, Ltd. ...	29	5	0				
,, 6	Bought goods of L. R. Simpson and Co.	10	8	2				
,, 8	Bought goods for cash	1	8	6				
,, 11	Paid (by cheque on bank) Joshua Firth, Ltd.	16	5	6	discount	8	2	
,, 11	Returned goods to L. R. Simpson and Co.	1	2	8				
,, 20	Sold goods to Richards & Co. ...	18	8	9				
,, 23	Sold goods to F. Durrant & Co....	4	7	6				
,, 23	Richards & Co. return goods ...	2	5	6				
,, 28	Paid wages, £5 2s. 6d. ; trade expenses, 15s. 3d.							
Mar. 2	Received (and paid into bank) from F. Durrant & Co. ...	10	0	0				
,, 9	Bought goods of Joshua Firth, Ltd.	8	5	2				
,, 12	Paid cheque to L. R. Simpson and Co.	9	1	0	discount	4	6	
,, 18	Sold goods to S. Ridsdale & Co.	14	12	8				
,, 23	Returned goods to Joshua Firth, Ltd.	1	6	0				
,, 30	Paid wages, £3; trade expenses, 14s.							
,, 30	Stock on hand	34	10	0				

EXERCISE 27.

Write up in the Cash Book (with Bank Account in separate column), Sales and Purchases Day Books, Returns Books, and Journal the following transactions of James Thornbury. Post to Ledger, prepare Trial Balance, Profit and Loss Account, and Balance Sheet at 30th September, 1901.

1901.		£	s.	d.				
July 1	Cash, £18 11s. 6d., and stock, £51 1s. 3d., at commencement							
,, 6	Sold goods to Vinter, Son & Co.	18	0	10				
,, 9	Vinter, Son & Co. return damaged goods	3	3	0				
,, 13	Bought goods of Jacob Morand...	7	18	8				
,, 18	Sold goods to Earle's Central Stores, Ltd.	9	15	2				
,, 26	Sold goods to Vinter, Son & Co.	15	12	9				
,, 27	Received cheque from Vinter, Son & Co. ... ... (paid cheque to Midland Bank)	29	0	0	discount	1	10	7
,, 28	Bought goods for cheque on bank	2	2	9				
,, 31	Paid for wages, £2 15s. 6d.; trade expenses, £1 2s 4d.							
Aug. 6	Bought goods of Jacob Morand	10	10	5				
,, 8	Returned goods to Jacob Morand	3	6	6				
,, 12	Paid for rent by cheque	3	2	6				
,, 17	Sold goods to Earle's Central Stores, Ltd.	12	19	1				
,, 20	Earle's Central Stores, Ltd., return damaged goods	1	5	6				
,, 26	Sold goods for cash	3	8	6				
,, 26	Bought goods of Jacob Morand	6	3	1				
,, 29	Paid cheque to Jacob Morand on account	15	0	0				
,, 31	Paid wages, £3 2s. 6d.; trade expenses, 18s. 3d.							
Sept. 2	Received cheque from Earle's Central Stores, Ltd.... ... (and paid into bank)	20	18	0	discount		10	9
,, 6	Paid subscription to Victoria Memorial Fund by cheque ...	1	1	0				
,, 10	Bought goods of Everton & Co.	13	8	4				
,, 12	Sold goods to Wilmot & Sons ...	45	2	1				
,, 12	Returned goods to Everton & Co.	1	5	2				
,, 13	Wilmot & Sons return goods ...	2	5	7				
,, 20	Sold goods for cash	4	5	9				
,, 21	Paid rent	3	2	6				
,, 25	Paid Jacob Morand	5	13	0	discount		12	8
,, 30	Paid wages, £2 17s. 6d.; trade expenses, £1 2s.							
,, 30	Paid into bank £5 out of office cash							
,, 30	Stock on hand	23	18	2				

MODERN BOOK-KEEPING AND ACCOUNTS

SUPPLEMENTARY EXERCISES

PART I

A.

Work out the calculations and write up in a Sales Day Book the following sales of Graylock Bros., Leather Factors :—

Aug. 5th, 1903, W. Bradbury & Son, 5 tons American splits @ 9d. per lb. Aug. 10th, British Boot Co., 5 cwts. satin kip sides @ 1/4 per lb. and Aug. 13th, 20 bales, each containing 4 cwts. 2 qrs. best pine creek sides @ -/10½ per lb. Aug. 17th, Parker, Lyon & Co. Limited, 50 rolls, of 15 yds. each, glove hide, @ -/4¾ per foot. Aug. 19th, Taylor & Hill, 10 cwts. satin kip shoulders @ 1/11 per lb. Aug. 20th, Paul Ryan, 10 bales, each containing 5 cwts. 1 qr. Australian sides @ -/8 per lb. Aug. 24th, Seamless Shoe Co., 20 rolls, of 20 yds. each, American satin @ -/5½ per foot. Aug. 28th, Harvey, Carter & Co., 5 cwts. Levant hide @ 1/3 per lb. Aug. 31st, Driver & Dixon, 1 ton Singapore sides @ -/7½ per lb.

B.

Work out the calculations and write up in a Sales Day Book the following sales of Perkin, Pratt & Co., Wholesale Chemists:—

Nov. 2nd, 1903, Chas. Pease, 7 galls. fine olive oil @ 4/6, bottle 3/-; 2 cwt. Calais sand @ 1/9. Nov. 5th, Thos. Mappin, 14 lbs. pulv. sodii bicarb. @ 47/6 per cwt.; 10 galls. dark carbolic acid @ 1/6, bottle 5/-; 112 lbs. absorbent wool, No. 2, tissued, @ 7½d. lb. (part of contract), wrapper 1/6. Nov. 10th, Holden Bros., three 20 feet cylinders, oxygen, @ 3½d. per foot, less 25%. Nov. 13th, Franklin & Son, ½ oz. chloretone @ 4/6 per oz, bottle 2d.; 7 lbs. laudanum @ 3/- per lb., bottle 4d. Nov. 19th, Wm. Sheldon, 5 gross 3 oz. short vials @ 12/- per gross; 6 doz. infants' food @ 9/3 per doz., less 10%, case 1/-. Nov. 24th, Alex. Grossmith, 3 gross aseptic swabs @ 1/2 per doz. Nov. 29th, Thos. Mappin, 5 lbs. 14 oz. camphorated oil @ 11d. per lb., bottle 4d.; 5 firkins soft soap @ 10/-, carriage 1/6.

C.

Write up a Cash Book from these particulars, showing balance in hand at the end of the month :—

1903.		£	s.	d.
July 1	Cash in hand	112	14	6
,, 2	Received cash from Hartley Bros.	45	19	10
,, 3	Cash sales for week	39	11	8
,, 4	Paid Wood & Son	98	12	3
,, 6	Bought goods for cash...	28	11	11
,, 6	Received cash from Barker & Bell	59	16	7
,, 9	Paid Carter & Co. Ltd.	17	14	2
,, 9	Wages paid	14	6	9
,, 10	Cash sales for week	45	14	1
,, 12	Rent paid	50	0	0
,, 14	Received cash from Hartley Bros.	98	10	6
,, 14	Paid Rupert & Son Ltd.	145	9	6
,, 16	Wages paid	15	11	0
,, 17	Cash sales for week	89	11	6
,, 20	Paid Carter & Co. Ltd.	19	17	2
,, 22	Paid fire insurance	25	6	8
,, 23	Paid wages	16	8	0
,, 24	Cash sales for week	96	0	1
,, 27	Paid Wood & Son	51	11	9
,, 30	Received cash from Barker & Bell	68	11	3
,, 31	Paid Telephone Co.	10	0	0
,, 31	Paid joiner for repairs	19	8	6
,, 31	Paid sundry trade expenses	18	3	9

D.

Write up the following transactions in a Cash Book, showing Discounts, and balancing the book at the end of each month :—

1903.		£	s.	d.		£	s.	d.
Oct. 1	Cash in hand	35	14	6				
,, 3	Paid Tilbury & Co. Ltd. ...	21	9	6	discount	1	2	6
,, 5	Cash sales	14	19	9				
,, 16	Paid wages	18	19	3				
,, 20	Received cash from J. Freer and Co.	23	15	0	discount	1	5	0
,, 28	Paid wages	15	9	2				
,, 31	Paid trade expenses	5	3	1				
Nov. 3	Bought goods for cash ...	10	11	3				
,, 5	Cash sales	19	14	2				
,, 10	Received cash from Hirst Bros.	66	14	9	discount	3	10	3
,, 15	Paid rent	18	6	8				
,, 18	Paid wages	21	9	1				
,, 19	Received cash for horse sold	35	0	0				
,, 25	Bought goods for cash ...	49	18	2				

1903.		£	s.	d.		£	s.	d.
Dec. 2	Paid cash to Hinde & Co. ...	38	6	8	discount	2	0	4
,, 5	Cash sales	45	11	8				
,, 8	Received cash from J. Freer and Co.	34	12	3	discount	0	17	9
,, 14	Paid wages	19	3	4				
,, 19	Took for private expenses ...	10	0	0				
,, 27	Paid Tilbury & Co. Ltd. ...	31	7	0	discount	1	13	0
,, 31	Paid Trade expenses... ...	7	9	2				

E.

Write up the Cash Book, with columns for Discount, Cash, and Bank. Show balance in hand and state of Bank Account at the end of the month :—

1903.		£	s.	d.		s.	d.
Aug. 1	Cash in hand	5	10	3			
,, 1	Cash at bank	25	6	8			
,, 3	Received cash from W. Johnson	10	9	4	discount	11	0
,, 4	Bought goods for cash	8	7	6			
,, 6	Paid Dobson Bros. by cheque ...	14	11	7	discount	15	5
,, 7	Received postal order from Evans Ltd.		15	0			
,, 9	Paid wages	3	19	2			
,, 11	Received cheque from Wilson and Ryan	15	11	6	discount	16	6
,, 14	Paid to bank	16	6	6			
,, 17	Drew cash from bank	10	0	0			
,, 20	Paid sundry expenses	3	9	2			
,, 23	Paid wages	3	18	0			
,, 25	Paid Hy. Carr & Son by cheque	6	2	3	discount	11	9
,, 26	Cash sales...	4	9	2			
,, 28	Withdrew cash for private use	5	0	0			
,, 28	Paid rent by cheque	3	5	0			

F.

Write up Cash Book, with columns for Discount, Cash, and Bank. Show balance in hand and state of Bank Account at end of each month.

1903.		£	s.	d.		£	s.	d.
Oct. 1	Cash in hand...	9	7	4				
,, 1	Cash at bank...	23	14	6				
,, 3	Received cash from J. King	15	11	8	discount	0	15	8
,, 6	Sold goods for cash... ...	35	8	9				
,, 9	Paid cash to bank	40	0	0				
,, 12	Paid cheque to Thos. Hearne	29	14	6	discount	1	12	0
,, 18	Sold goods for cash... ...	40	9	2				
,, 24	Paid cash to bank	30	0	0				
,, 26	Paid rent by cheque	20	0	0				
,, 31	Withdrew from bank for office cash	25	0	0				
,, 31	Paid wages	18	9	6				

1903.		£	s.	d.		£	s.	d.
Nov. 1	Sold goods for cash	49	18	3				
,, 4	Received cheque from W. Barlow & Son	27	8	9	discount	1	8	9
,, 6	Paid to bank	50	0	0				
,, 10	Bought horse and cart for cheque	45	10	0				
,, 15	Received cash from J. King	32	11	11	discount	1	14	1
,, 19	Sold goods for cash	52	9	1				
,, 22	Paid to bank	50	0	0				
,, 25	Bought goods for cash ...	23	12	2				
,, 30	Paid cheque to Thos. Hearne	60	11	0	discount	8	9	0
,, 30	Paid wages	23	1	3				
Dec. 6	Sold goods for cash	39	4	4				
,, 10	Received cash from W. Barlow & Son	69	14	3	discount	3	12	9
,, 13	Paid cash to bank	100	0	0				
,, 18	Paid interest on mortgage loan by cheque	36	3	6				
,, 24	Withdrew from bank for office cash	35	0	0				
,, 26	Paid sundry 'Xmas boxes ...	5	0	0				
,, 31	Paid wages	25	8	6				

G.

Enter up the Ledger Account of Alfred Marchant as it would appear in B. & D. Wilmot's books:—

1903.		£	s.	d.
Aug. 3	B. & D. W. sell to A. M. goods	18	16	8
,, 7	Do. do. do.	5	3	6
,, 10	A. M. returns goods	2	0	6
,, 12	B. & D. W. buy from A. M. goods	29	12	0
,, 14	Do. pay cash to A. M.	28	17	2
	and deduct discount		14	10
,, 17	A. M. buys from B. & D. W. goods	8	2	9
,, 19	A. M. pays cash to B. & D. W	21	19	8
,, 20	B. & D. W. sell to A. M. goods	12	0	0
,, 24	A. M. sells to B. & D. W. goods	3	12	10
,, 26	B. & D. W. return to A. M. do.	1	0	0
,, 28	A. M. buys from B. & D. W. do.	31	11	3
,, 31	B. & D. W. receive cash from A. M. ...	49	1	2
Sept. 5	B. & D. W. sell to A. M. goods	18	16	0
,, 9	A. M. buys from B. & D. W. goods	7	14	2
,, 10	A. M. returns to B. & D. W. do.	2	18	3
,, 17	A. M. pays to B. & D. W.	23	0	0
,, 17	A. M. deducts discount		11	11
,, 23	A. M. sells to B. & D. W. goods	12	12	0
,, 24	B. & D. W. pay cash	12	12	0

H.

Barwell Bros. have the following transactions with John Drury. Write up Drury's account in their Ledger, ruling off where the items balance.

1903.		£	s.	d.
Dec. 3	B. Bros. buy goods	63	16	7
,, 5	J. D. sells goods	11	1	6
,, 5	B. Bros. return goods	2	11	0
,, 8	Do. buy goods	21	4	9
,, 10	Do. pay cash	50	0	0
,, 12	Do. sell goods to J. D.	3	16	0
,, 12	J. D. pays cash	3	16	0
,, 17	Do. sells goods...	8	8	0
,, 22	Do. buys from B. B. goods	12	2	8
,, 22	Do. returns goods	1	2	6
,, 31	B. B. pay to J. D.	40	19	8
1904				
Jan. 1	B. B. buy goods	18	11	0
,, 3	J. D. sells goods	27	17	0
,, 4	Do. receives cash	18	11	0
,, 7	B. B. return goods	2	0	0
,, 20	J. D. buys goods...	5	6	5
,, 27	B. B. sell do.		12	7
,, 31	Do. pay cash	19	18	0

I.

Record in Cash Book and Ledger the transactions of Wm. Winston. Prepare Trial Balance, Profit and Loss Account, and Balance Sheet. Use Journal for closing entries.

1904.		£	s.	d.
Jan. 1	W. Winston commenced business and paid £100 into the City Bank Ltd.			
,, 2	Bought goods and paid by cheque	37	16	8
,, 5	Sold goods for cash	10	11	3
,, 7	Do. do.	7	15	10
,, 7	Paid to bank	15	0	0
,, 11	Paid sundry expenses		12	6
,, 16	Bought goods and paid by cheque	26	0	0
,, 25	Sold goods for cash	31	18	6
,, 30	Paid to bank	25	0	0
,, 30	Paid wages	2	10	0
,, 30	Paid rent	2	13	4
Feb. 3	Sold goods for cash	12	3	9
,, 4	Bought goods for cash	10	0	0
,, 9	Bought goods, paid by cheque...	42	11	8
,, 11	Sold goods and received cheque (paid into bank)	17	18	0

1904.		£	s.	d.
Feb. 13	Sold goods for cash	9	3	1
,, 17	Do. do.	14	14	0
,, 18	Paid to bank	20	0	0
,, 20	Sold goods and received cheque (paid into bank)	33	13	1
,, 27	Paid wages	3	0	0
,, 27	Paid rent	2	13	4
	No stock on hand.			

J.

Record in Cash Book, Sales Day Book, and Ledger, the transactions of Thomas Atkinson. Prepare Trial Balance, Profit and Loss Account, and Balance Sheet. Use Journal for opening and closing entries.

1903.		£	s.	d.		£	s.	d.
Dec. 1	Stock on hand...	156	9	8				
,, 1	Cash in hand	5	11	6				
,, 1	Cash at bank	69	7	8				
,, 1	Due from Hy. Sheard ...	49	12	6				
,, 3	Bought goods for cheqne ...	25	19	5				
,, 4	Received cheque on account from Hy. Sheard ...	30	0	0				
,, 4	Paid to bank	30	0	0				
,, 5	Sold goods to Thos. Newman	28	11	8				
,, 6	Drew cash from bank ...	10	0	0				
,, 7	Paid wages	8	15	9				
,, 10	Sold goods for cash	22	1	9				
,, 10	Received cheque from Hy. Sheard	18	7	9	discount	1	4	9
,, 11	Sold goods to Thos. Newman	25	13	7				
,, 12	Bought goods for cash ...	40	0	0				
,, 13	Received cheque from Thos. Newman	27	3	0	discount	1	8	8
,, 14	Paid to bank	27	3	0				
,, 14	Drew cash from bank ...	20	0	0				
,, 14	Paid wages	8	5	0				
,, 17	Sold goods to Hy. Sheard ...	39	1	4				
,, 18	Paid rent by cheque	20	0	0				
,, 19	Paid trade expenses in cash...	5	6	8				
,, 20	Withdrew cash for private use	6	0	0				
,, 21	Drew cash from bank ...	15	0	0				
,, 21	Paid wages	9	1	0				
,, 23	Sold goods to Thos. Newman	30	1	6				
,, 27	Received cash from Thos. Newman	24	8	0	discount	1	5	7
,, 28	Paid wages	6	9	0				
,, 28	Paid trade expenses in cash...	8	12	3				
Stock on hand 31st Dec. valued at ...		164	18	3				

K.

From the following Trial Balance at 31st December, 1903, prepare Profit and Loss Account and Balance Sheet of Charles Donaldson :—

	£	s.	d.	£	s.	d.
Charles Donaldson—Capital a/c as at 1st July, 1903				2,735	9	6
Land and buildings a/c	1,860	0	9			
Fixtures and furniture a/c	473	2	0			
Horses and carts a/c	79	10	3			
Goods a/c				1,819	13	9
Salaries and wages a/c	326	1	9			
Carriage a/c	105	3	3			
Trade expenses a/c	315	6	9			
Rates and taxes a/c	78	15	3			
Printing, stationery, and advertising a/c	45	9	6			
Discount a/c	83	4	9			
Debtors, per ledger	2,781	0	9			
Creditors, per ledger				1,692	11	9
Cash in bank	85	6	6			
Cash in hand	14	13	6			
	6,247	15	0	6,247	15	0

Value of stock on hand, 31st December, 1903... ... ... £649 3 6

L.

From the following Trial Balance, prepare Profit and Loss Account and Balance Sheet of Frederick Howarth :—

TRIAL BALANCE, 31ST DECEMBER, 1903.

	£	s.	d.	£	s.	d.
Capital a/c				2460	10	6
Furniture and fixtures a/c	1240	10	0			
Horses and carts a/c	160	5	6			
Wages a/c	320	18	4			
Rent a/c	100	0	0			
Rates a/c	33	6	8			
Trade expenses a/c	49	4	6			
Horse-keep a/c	65	12	1			
Sales a/c				4380	11	4
Stock, Jan. 1st, 1903	641	12	2			
Debtors per Ledger	1206	9	1			
Discount a/c				59	12	8
Cash	21	9	4			
Creditors, per Ledger				595	5	5
Bank	705	9	6			
Purchases a/c	2951	2	9			
	7495	19	11	7495	19	11

At Dec. 31st, 1903, the Stock on hand was £320 9s. 1d.

M.

Record the following transactions of Alfred Heinrich by means of Journal, Cash Book, and Sold and Bought Day Books; post to Ledger, and make out Trial Balance, Profit and Loss Account, and Balance Sheet:—

1903.			£	s.	d.
Jan.	1	Cash in hand	17	15	3
,,	1	Cash in bank	186	17	9
,,	1	Goods in stock	349	13	11
,,	8	Sold to Wells & Son—goods	19	16	3
,,	12	Bought of Brown Bros.—goods	24	19	1
Feb.	1	Wells & Son pay £19 10s.—discount, 6s. 3d.			
,,	3	Paid to bank	10	0	0
Mar.	6	Drew cheque for Brown Bros...	12	0	0
,,	13	Sold to Chas. Carr—goods	34	15	1
,,	31	Received cash for goods	2	10	0
Apr.	4	Bought goods of D. Dixon	86	2	9
,,	18	Alfred Heinrich withdraws cash	20	0	0
,,	28	Received from Carr and paid to bank £33—allowed discount, £1 15s. 1d.			
May	9	Wells & Son buy goods...	96	14	3
,,	25	Wells & Son pay cash	40	0	0
June	6	Paid Brown cash, £12 10s.—discount, 9s. 1d.			
,,	14	Paid Dixon cash, £10, and cheque on bank, £30			
,,	23	Drew cheque for rent, £25.			
,,	23	Cash paid, sundry expenses, £14 17s. 3d.			
,,	30	Stock, £400.			

N.

Record in Journal, Cash Book, Sales and Purchases Day Books, and Ledger the transactions of Joseph Dixon. Prepare Trial Balance, Profit and Loss Account, and Balance Sheet.

Jan. 1 Joseph Dixon receives a legacy of £1,000 and commences business by paying that sum into Lloyds Bank, Ltd. His transactions are :—
,, 2 Drew cheque, £50, for warehouse furniture.
,, 2 Do. £50, for office cash.
,, 3 Paid wages, £8 16s.
,, 5 Bought goods from Bousfield, Clark & Co., £200
,, 7 Sold goods to Connor Bros., £8 16s. 9d.
,, 10 Cash sales, £46 18s. 7d. ; paid wages, £10 14s.
,, 14 Bought goods from Bousfield, Clark & Co., £26 17s. 2d.
,, 16 Do. Earle & Co., £26 15s. 9d.
,, 17 Paid bank, £70.
,, 17 Cash sales, £54 12s. 8d. ; paid wages, £10 12s. 6d.
,, 20 Bought goods from Bousfield, Clark & Co., £185 13s. 4d.
,, 24 Cash sales, £53 8s. 11d. ; paid wages, £10 11s. 8d.
,, 31 Do. £61 19s. 7d. ; do. £10 15s.
,, 31 Paid bank, £100.

Feb. 3 Sold goods to Connor Bros., £3 15s. 2d.
,, 3 Bought goods from Bousfield, Clark & Co., £153 10s.
,, 7 Cash sales, £56 14s. 8d.; paid wages, £11.
,, 14 Do. £59 12s. 8d.; do £11 10s.
,, 16 Bought goods from Bousfield, Clark & Co., £95 18s. 10d.
,, 17 Received from Connor Bros., Cash, £8 8s.; allowed discount, 8s. 9d.
,, 20 Bought goods from Earle & Co., £89 16s.
,, 21 Paid rates, £18 10s., by cheque.
,, 21 Cash sales, £64 13s. 5d.; paid wages, £11 5s.
,, 28 Do. £66 9s. 7d.; do. £11.
,, 28 Paid bank, £150.
Mar. 4 Sold goods to Connor Bros., £5 17s. 9d.
,, 7 Do. Earle & Co., £1.
,, 7 Cash sales, £68 7s. 9d.; paid wages, £10 15s.
,, 14 Do. £59 9s. 5d.; do. £11.
,, 21 Do. £58 5s. 9d.; do. £10 17s. 6d.
,, 21 Paid Bousfield, Clark & Co., cash, £195 (discount £5).
,, 26 Drew cheque for Earle & Co., £25; discount, 15s. 9d.
,, 28 Received from Connor Bros., cash, £3 13s. 6d.; discount allowed, 1s. 8d.
,, 28 Cash sales, £60 12s. 3d.; paid wages, £10 10s.
,, 28 Drew cheque for quarter's rent, £30.
,, 30 Bought warehouse and paid cheque £900 for same.
Stock, March 30, £300.

O.

Record in Journal, Cash Book, Sales and Purchases Day Books, and Ledger the transactions of Oliver Sherwood. Prepare Trial Balance, Profit and Loss Account, and Balance Sheet.

1903.		£ s. d.	£ s. d.
Feb. 1	Cash in hand	11 9 6	
,, 1	Stock of goods on hand ...	53 8 4	
,, 5	Sold goods to York & Son ...	7 12 9	
,, 6	Bought goods from Milner Bros.	14 8 6	
,, 7	Sold goods to Thos. Hart ...	19 10 11	
,, 11	Sold goods to York & Son ...	10 6 9	
,, 14	Received cash on account from York & Son ...	12 0 0	
,, 15	Sold goods to Thos. Hart ...	8 14 4	
,, 18	Bought goods from Winston and Co.	5 9 10	
,, 20	Received cash from T. Hart	26 17 0	discount 1 8 3
,, 23	Paid Milner Bros. cash ...	14 1 0	discount 0 7 6
,, 25	Paid expenses	4 4 2	
,, 27	Sold goods to York & Son ...	11 9 9	
,, 28	Paid wages	5 8 6	
,, 28	Paid rent	4 0 0	

1903.		£	s.	d.		£	s.	d.
Mar. 5	Received cash from York and Son	16	14	6	discount	0	14	9
,, 7	Sold goods to T. Hart ...	15	11	3				
,, 15	Bought goods from Winston and Co.	6	8	2				
,, 18	Sold goods for cash	5	9	10				
,, 21	Bought goods from Milner Bros.	13	1	10				
,, 24	Paid cash to Winston & Co.	11	0	0	discount	0	18	0
,, 31	Paid expenses...	3	9	6				
,, 31	Paid Wages	5	14	0				
,, 31	Withdrew cash for private use	5	0	0				
,, 31	Paid rent	4	0	0				
,, 31	Stock in hand...	69	7	6				

P.

Record in Journal, Cash Book, Sales and Purchases Day Book, Returns Book, and Ledger the transactions of James Newsome.

Prepare Trial Balance, Profit and Loss Account, and Balance Sheet.

1903.		£	s.	d.		£	s.	d.
Sept. 2	Cash at County Bank, Ltd....	157	18	6				
,, 2	Cash in hand	12	3	6				
,, 2	Stock in hand...	63	7	0				
,, 3	Sold goods to Jno. Kerr ...	42	10	10				
,, 4	Jno. Kerr returned goods ...	2	0	0				
,, 4	Bought goods of Dale & Young	11	0	6				
,, 8	Do. for cash ...	5	3	0				
,, 10	Received cash from Jno. Kerr	38	10	0	discount	2	0	10
,, 11	Paid to bank	40	0	0				
,, 15	Paid trade expenses		13	6				
,, 16	Bought goods of T. Willis ...	27	17	7				
,, 16	Sold goods to Wm. Alford ...	31	9	0				
,, 17	Do. for cash	6	0	0				
,, 18	Paid cheque to Dale & Young	11	0	0	discount	0	0	6
,, 22	Sold goods to Price & Co. ...	27	7	0				
,, 23	Received cheque on a/c from Wm. Alford	20	0	0				
,, 25	Bought goods of Dale & Young	50	16	9				
,, 26	Returned to Dale & Young, goods	10	6	0				
,, 26	Paid rates	3	3	0				
,, 28	Bought goods for cash ...	1	10	0				
,, 28	Sold goods to G. R. Dyer ...	26	1	6				
,, 28	Received cash from W. Alford	10	13	3	discount	0	15	9
,, 29	Dyer, returned goods ...	2	3	0				
,, 29	Paid cheque to T. Willis ...	27	4	0	discount	0	13	7

1903.		£	s.	d.
Sept. 29	Received cash from Price & Co. on a/c	25	0	0
,, 29	Sold goods to C. & A. Clapin	16	16	0
,, 30	Paid wages	7	3	6
,, 30	Do. trade expenses	1	10	0
,, 30	Do. to bank	15	0	0
,, 30	Withdrew	15	0	0
,, 30	Stock on hand...	68	0	0

Q.

WILLIAM LAND'S BALANCE SHEET, 1st JANUARY, 1903.

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
Hey & Co.	30	10	6	H. Day	79	11	9
Rose & Son	52	17	3	Strong & Co.	44	13	4
County Bank	38	7	3	Horses and carts ...	78	15	0
Capital, W. Land ...	1,534	7	6	Office furniture ...	37	16	0
				Stock	1,395	6	5
				Petty cash in hand ...	20	0	0
	£1,656	2	6		£1,656	2	6

In accordance with the above Balance Sheet open a set of books, and write them up from the following information :—

Copy Invoice Book shows that the following goods have been sent away :—

		£	s.	d.			£	s.	d.
Jan. 5	Hy. Day ...	36	9	4	Jan. 20	Hy. Day ...	56	19	9
,, 8	Hy. Day ...	21	7	8	,, 24	Strong & Co.	32	9	4
,, 15	Strong & Co.	45	17	3	,, 29	Strong & Co.	42	8	6

The invoices received during the month are :—

		£	s.	d.			£	s.	d.
Jan. 12	Hey & Co. ...	256	12	8	Jan. 20	Rose & Son	12	19	9
,, 18	Rose & Son	39	4	2	,, 29	Hey & Co. ...	19	8	1

A credit note was received from Hey & Co. on Jan. 15th for £4 3s. 5d. for goods sent back.

The counterfoil Receipt Book gives the following particulars :—

No. 39. Jan. 12 Hy. Day, cash, £75 12s.; discount, £3 19s. 9d.

No. 40. Jan. 18 Strong & Co., cash, £42 8s. 8d. ; discount, £2 4s. 8d.

No. 41. Jan. 22 Thomas Ison, for horse, £20.

The cash takings were as follows :—

	£	s.	d.
3 days ending Saturday, 3rd Jan.	56	19	5
Week ending 10th Jan.	141	4	7
Week ending 17th Jan.	124	3	2
Week ending 24th Jan.	119	3	9
Week ending 31st Jan.	159	11	4

All cash received was paid into bank weekly, on Monday.

The counterfoil Cheque Book shows that the following cheques have been drawn:—

		£	s.	d.
Jan. 2	Jas. Hardcastle, for quarter's rent, due 1st inst.	25	0	0
,, 10	Hey & Co., in settlement of a/c to Dec. 31st, 1902	29	0	0
,, 15	Rose & Co., in settlement of a/c to Dec. 31st, 1902	50	4	6
,, 16	Jos. Sands, horse corn	3	4	0
,, 18	Wm. Haigh, repairs	5	6	3
,, 20	N.E. Railway Co., carriage ...	20	6	4
,, 21	Jas. Blake, roll top desk for office...	13	6	8
,, 31	Wm Land, drawing	25	0	0
,, 31	Selves, salaries, and wages	32	3	6
,, 31	Selves, for Petty Cash Payments during the month, as below—			

Summary:—	£	s.	d.
Goods	5	9	8
Repairs	2	9	2
Carriage	3	14	2
Sundry expenses ...	6	11	10
Horse-keep	1	3	2
	19	8	0

The value of the stock on 31st January was £1,178 15s.

Close the books at 31st January, and prepare Profit and Loss Account and Balance Sheet.

R.

Make Journal entries of the following transactions of Colston Bros., Drysalters :—

Received horse and van in exchange for goods, value £35.

Sold goods to Marshall Bros., £50.

Bought goods of Josh. Hirst & Sons, £80.

Handed to Hirst cheque received from Marshall Bros., £47 10s., and allowed the latter discount, £2 10s.

Sold to Hirst old machinery, £32 10s.

S.

During the week ending Saturday, April 25th, 1903, a newsagent buys *British Mercuries* (selling price ½d.) at the rate of 4½d. per dozen of 13, as follows:—April 20th, 3 doz.; 21st, 4 doz.; 22nd, 4 doz.; 23rd, 4 doz.; 24th, 3 doz.; 25th, 5 doz. The papers are disposed of as follows:—20 customers each pay him 4d. per week for one copy delivered daily. Newsboys buy 8 doz. at 4½d. per doz. of 12; 70 single copies are sold at ½d.; and 13 copies are returned to the publishers at cost price. Make out an account showing profit for the week.

T.

The following balances are taken out of the Ledgers of Peter Scott on 30th June, 1902 :—

	£	s.	d.
Debtors, per Ledger :—			
Sharp & Co.	36	12	9
Heaton's Ltd.	65	19	6
Bray & Sons...	106	9	3
Brooke Bros.	76	5	3
Lord & Co.	378	12	9
Creditors, per Ledger :—			
Kew & Co.	23	5	6
Clive & Sons	89	3	3
Bayham Ltd.	132	9	9
Forrest & Hill	65	17	6
Other Balances :—			
Capital a/c	1,763	19	6
Property a/c	1,000	0	0
Horses, vans, and harness	65	3	6
Horse-keep a/c	40	9	6
Wages a/c	594	3	3
Discount a/c (Dr.)	27	10	6
Office expenses	116	13	3
Rates, taxes, and insurance a/c	79	3	6
Gas and water a/c	49	10	9
Repairs a/c	65	13	3
Machinery and plant	520	17	3
Fixtures and fittings a/c	85	9	9
Stock, Jan. 1st, 1902, a/c	430	8	6
Rent received a/c	25	0	0
Sales a/c	3,463	19	6
Fuel a/c	85	3	6
Purchases a/c	1,819	16	3
Returns inwards a/c	89	3	9
Returns outwards a/c	43	6	6
Printing, stationery, and advertising a/c ...	34	14	9
Carriage a/c	40	11	6
Travelling expenses a/c	239	11	3

The Cash Book showed £445 10s. 9d. due to the Bank and £4 8s. 9d. cash in hand. The stock on hand, 30th June, 1902, was £759 6s. 3d. Prepare Balance Sheet, 30th June, 1902, and Profit and Loss Account

QUESTIONS

FROM THE

VOLUNTARY EXAMINATIONS OF THE COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

1.—Explain what is meant by the—Balance of an Account; Credit Note; Post-dated Cheque; Impersonal Account; state the particulars required to be shown upon an Invoice and upon a Receipt.

2.—A Corn Merchant buys 100 quarters of Wheat at 30s. per quarter, and pays carriage 6d. per quarter. He also buys 60 quarters Wheat at 31s. 6d., delivered free. He sells 156 quarters at 32s. (less 12s. allowance); the remaining 4 quarters become damaged and worthless. Make out an Account showing the Profit or Loss.

3.—Describe the method of entering and posting the Sales Day Book, and give an example with full details of three transactions.

4.—The Stationery Co. Ltd., Royal Square, Darlington, sell the following goods to Marshall Bros., 125, Cross Street, Barnard Castle, and the goods are invoiced daily. 1902—April 7th, 2 reams of Foolscap at 16s. 6d.; April 7th, 10 lbs. of Vellum Note at 8d.; April 7th, 4 doz. Commercial Pens at 2s. 6d. a gross; April 9th, 6 bottles of Ebony Ink at 8½d.; April 18th, 250 Medium Envelopes, No. 087, at 2s. 4d. per 100; April 21st, 1 Cash Book 5s. 6d., 2 Ledgers at 6s. 6d.; April 29th, ½ ream Absorbent Blotting at 12s. 6d. On April 10th Marshall Bros. remit in error 10s. less than the amount owing to that date.

Write out the Invoice of April 7th, and the Monthly Statement which would be sent to Marshall Bros. on April 30th.

5.—A Trader supplies Articles to customers "on approval for seven days." Describe a method of entering such transactions:—

(1) When the Customer purchases the Article.

(2) When the Customer returns the Article.

6.—On 1st January, 1903, Emmanuel Goldman advances £200 to Rodney Stone at 10s. per cent. per month interest. The following transactions occur:—Feb. 1st, R. S. repays £50; March 1st, R. S. repays £80; April 1st, E. G. advances £100; May 1st, R. S. sells to E. G. goods value £60; June 1st, R. S. repays £40. On June 30th R. S. pays to E. G. a sum equal to the balance owing by him, after allowing 2½% Discount on the Goods sold. Interest, at the same rate as on the first item, is to be charged and allowed on each item.

Prepare the Account in E. G.'s Ledger.

7.—A Book-keeper writes out the Invoices of Goods sold, enters the total amount in the Customer's Account in the Ledger, and despatches the Invoice to the Customer (keeping a rough note of the particulars on loose sheets of paper). At the end of the week he writes up his Day Book.

Suggest any improvement on this method, and give your reasons.

8.—Describe fully three methods of dealing with Credit Purchases.

9.—A Merchant buys Produce at £5 per ton, less 10% Discount. The waste of Stock before selling is 5%. At what price per cwt. must he sell the Goods in order to show a profit of 20% on sale price?

10.—Enter in Journal the following transactions of a Quarry Owner:—

Jan. 1. Bought Stone-Breaking Machine from Smith Bros., £150.
,, 5. Sold 2 old Wagons for Cash, £15.
,, 8. Gave Granite Slabs in exchange for Horse and Cart value £30.
,, 11. Received from Wardman & Co. a Portable Engine worth £42 in settlement of a debt due from them.
,, 13. Gave Smith Bros. Cash £30, Steam Boilers worth £50, and Stone value £70, in payment of amount owing.

11.—Describe what is meant by Stock-taking: how often should this be done, and what is the object of it?

12.—A Tradesman wishes to keep his Accounts in a complete form as from 1st July, 1902. At present he has a Book containing particulars of goods sold on credit, and when the Customer pays an account the entry in this book is crossed out. No other books are kept. He buys goods on credit, has a Banking Account, and files his invoices and receipted accounts. Describe the steps he should take to commence a proper system of Book-keeping on 1st July, 1902.

13.—State the precise effect of the following errors in a set of books:—

(a) Sold Day Book, over-added £100.

(b) Discount Column (Dr. side of Cash Book) under-added 10s.

(c) Goods sold £181 6s., posted to Customer's Ledger account as £18 1s. 6d.

VOLUNTARY EXAMINATIONS OF THE COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

First Stage Examination Paper, 1905.

(Time Allowed, 3 hours.)

1.—Enter the following transactions of Arthur Earby in Cash Book (using columns for Discount, Office, and Bank) and show balance at 31st January, 1905:

Dec.	31.	Amount in Bank, £148 6s. 9d., and in hand £5 16s. 8d.
Jan.	2.	Paid to Petty Cashier, £4.
,,	3.	Received from Hall & Co., £4 15s., Discount 5s.
,,	7.	Cash Sales, £46 18s. 9d.
,,	7.	Paid Wages, £4 3s. 6d.
,,	7.	Paid into Bank, £35.
,,	9.	Paid Sharp Bros., by Cheque, £36, Discount £4.
,,	9.	Paid Fire Insurance by Cheque, £3 15s.
,,	11.	Received from Wilson & Son and Paid to Bank, £24 7s. 6d., Discount 12s. 6d.
,,	14.	Paid Wages, £3 18s. 6d.
,,	14.	Cash Sales, £42 3s. 2d.
,,	14.	Paid into Bank, £50.
,,	17.	Received from R. Jacobs & Co., £2 17s., Discount 3s.
,,	18.	Paid Carter & Son, by Cheque, £117 10s., Discount £3 5s. 6d.
,,	21.	Cash Sales, £45 9s. 1d.
,,	21.	Paid Wages, £4 6s.
,,	21.	Paid into Bank, £38.
,,	23.	Paid Draper Bros., £8 15s., Discount 5s.
,,	23.	Drew from Bank for Office, £10.
,,	24.	Received from Benj. Bates and paid to Bank, £33 5s., Discount £1 15s.
,,	28.	Paid Wages, £4 8s. 6d.
,,	28.	A. Earby withdraws, by Cheque, for private expenses, £5.
,,	30.	Paid into Bank, £34.
,,	30.	Received from Mason & Co., £31 15s. 6d.

2. Two Customers, Thos. Archer and Wm. Booth, have dealings with Dawson & Co. on the following terms:—

Goods paid for within 1 calendar month 3¾ % discount.
,, ,, ,, 3 ,, months 2½ % ,,

After 3 months, no discount.

Prepare the Account as in Dawson & Co.'s Ledger:

1904.			£	s.	d.
Nov. 11.	Thos. Archer	buys Goods	22	15	0
,, 16.	,,	returns Goods	2	15	0
,, 25.	,,	buys Goods	18	19	5
Dec. 1.	,,	pays Cash	19	5	0
,, 3.	,,	buys Goods	26	13	11
,, 9.	,,	pays Cash	12	0	0
,, 15.	,,	,, ,, ...	31	19	1
,, 23.	Wm. Booth	buys Goods	40	0	0
,, 29.	Thos. Archer	,, ,, ...	45	10	0
1905.					
Jan. 16.	Wm. Booth	returns Goods	5	0	0
,, 18.	Thos. Archer	buys Goods	12	4	8
Feb. 15.	,,	,, ,, ...	19	5	4
,, 16.	Wm. Booth	,, ,, ...	20	0	0
,, 27.	Thos. Archer	pays Cash	44	7	3
Mar. 14.	,,	buys Goods	26	0	0
,, 31.	Both customers pay the amounts owing by them.				

3. A Sales Day Book contains the following:—

1905.

Jan. 3. Jas. Fairfax & Sons, Hull.

	£	s.	d.	£	s.	d.
20 yds. Black Cloth at 5s. 3d.	5	15	0			
3½ doz. Windsor Lace at 9s. doz.	1	11	6			
15 Silk Wrappers at 3s. 6d.	3	12	6			
Box	0	1	6			
				13	0	6

After the Book is added up to the end of January it is discovered that there are errors in these figures. How should they be corrected? How could such errors be guarded against?

4. Explain the meaning of:—

A Credit Sale;
Posting;
Returned Cheque;
Balance Sheet;
Profit.

5. On which side in the Ledger would you expect to find a Balance of Capital Account, Business Premises Account, Wages Account, Discount Account? Give your reasons.

QUESTIONS

First Stage Examination Paper, 1906.

(Time allowed, 3 hours.)

1. William Heath commences business on 1st Jan., 1906, with Cash £50. His transactions are :

Jan. 1. Paid for goods bought this day, £15.
,, 2. Bought and paid for Hand-cart, £2 10s.
,, 3. Bought goods of R. Valley & Co., £13 10s.
,, 4. Bought goods of J. Dale & Co., £26 10s. 3d.
,, 5. Sold goods to J. W. Moore, £2 14s. 6d.
,, 6. Sundry Cash Sales, £8 4s. 2d.
,, 9. Bought goods of J. Dale & Co., £14 10s. 8d.
,, 9. Goods sold to T. Hill & Son, £3 10s.
,, 10. Goods sold to J. W. Moore, £1 9s. 3d.
,, 11. Bought goods of J. W. Moore, £4.
,, 13. Sundry Cash Sales, £7 12s. 5d.
,, 16. Sold goods to Chas. Fenn, 18s. 6d.
,, 16. Sold goods to J. W. Moore, £2 6s. 5d.
,, 17. Bought goods of J. Dale & Co., £12 6s. 4d.
,, 20. Sundry Cash Sales, £9 5s. 4d.
,, 20. Paid R. Valley & Co. amount of their a/c less 2½ % Discount.
,, 20. Paid J. Dale & Co. £40, Discount £1 0s. 11d.
,, 23. Sold goods to J. Dale & Co., £1 5s.
,, 24. Sold goods to J. W. Moore, £1 4s. 10d.
,, 26. J. W. Moore pays balance of a/c less Discount 3s. 9d.
,, 27. Sundry Cash Sales, £8 9s. 1d.
,, 31. Paid Rent £3 6s. 8d., Wages £6 10s.
,, 31. W. Heath withdraws Cash for private use, £3.

Enter up the Bought and Sold Day Books, Cash Book, and Ledger. Prepare Trial Balance 31st January, 1906.

2. State (as fully as you can) the particulars which should appear in an entry in the Sales Day Book.

Explain how the Bank Account may be kept, without its appearing as a Ledger Account.

3. A merchant has in stock at the end of his financial year 144 yards of cloth which cost him 3s. 4d. per yard, less 5 % Discount. The selling price is 4s. 2d. per yard, less 2½ % Discount. 12 yards of the cloth have been damaged and can be sold for 1s. per yard. At what sum should he value the cloth in his stock-taking ?

4. A Trader (who has kept no proper accounts) wishes to commence a set of Books on 1st May, 1906. He has on that date Cash in Bank £100, Stock of Goods valued at £85, and Hy. Swift owes him £10. The Trader owes to Carter Bros. £5.

State fully how he should proceed to open his Books and give the necessary entries.

5. On 31st March, 1906, James Robinson's books give the following:

TRIAL BALANCE.

	£	s.	d.	£	s.	d.
Jas. Robinson, Capital a/c				326	5	8
Bank	153	5	8			
Goods a/c for Stock, 1st April, 1905	246	4	7			
Hicks & Co.	56	9	2			
Purchases	1757	5	9			
Discount				24	5	4
Goodyear & Sons				82	9	11
Wages	322	1	8			
Household Expenses (J. Robinson)	100	0	0			
Forrest & Co.	3	5	4			
Rent, Rates, &c.	56	9	7			
Earnshaw & Barnes				2	7	8
General Expenses	24	5	8			
Bairstow & Cox	103	3	2			
D. Davidson				14	5	9
Travelling Expenses	26	4	3			
Charlesworth & Co.				10	4	3
Legal Expenses	2	5	9			
Advertising...	32	6	9			
Sales...				2423	8	9
	£2883	7	4	2883	7	4

Stock 31st March, 1906, £264 7s. 4d.
Prepare Profit and Loss Account and Balance Sheet.

First Stage Examination Paper, 1907.

(Time Allowed, 3 hours.)

1. On 1st March, 1907, Robert Kelly commences business with £600 at credit of his account at the County Bank: his transactions are:

Mar. 1. Bought goods from H. J. Jowett & Co., £158 10s. 6d.
,, 2. Paid Cash for advertisements, £5.
,, 2. Drew cheque for Petty Cashier (to be accounted for), £10, and Office Cash, £40.
,, 2. Received from Lidgett & Sons a Horse, Cart, and Harness worth £35 in exchange for Goods £20 and Cash £15.
,, 4. Sold goods to J. & R. Campbell, £53 6s. 8d.
,, 5. Drew Cheque for Warehouse Furniture, £120.
,, 5. Bought goods from Lidgett & Sons, £326 19s.
,, 7. Paid cash for Travelling Expenses, £8 10s.
,, 7. Received from J. & R. Campbell, cash, £52: allowed Discount £1 6s. 8d.
,, 9. Paid Wages, £12 10s.

Mar. 11. Bought goods from H. J. Jowett & Co., £36 14s. 9d.
,, 12. Paid Lidgett & Sons by cheque £320, Discount £6 19s.
,, 12. Bought goods for cash, £85.
,, 12. Drew out of Bank for office cash, £70.
,, 13. Sold goods to J. & R. Campbell, £24 15s. 8d.
,, 14. Paid Cash for Telephone rental, £4 5s.
,, 16. J. & R. Campbell pay amount owing by them less £1 4s. 8d. Discount.
,, 16. Paid Wages, £16.
,, 16. Two Weeks' Cash Sales, £203 16s. 5d.
,, 18. Paid to Bank out of cash, £180.
,, 19. Paid for Warehouse cleaning, £4 15s.
,, 19. Sold goods to Lidgett & Sons, £16 14s. 9d.
,, 20. Paid cheque to H. J. Jowett & Co., £185 10s., Discount £9 15s. 3d.
,, 22. Bought goods from H. J. Jowett & Co., £65 3s. 8d.
,, 23. Paid Wages, £20.
,, 27. Bought goods from H. J. Jowett & Co., £45 11s. 3d.
,, 27. Sold goods to Lidgett & Sons, £19 13s. 3d.
,, 30. Paid Wages, £20.
,, 30. Cash Sales for 2 weeks, £298 6s. 5d.
,, 30. Cheque drawn for Petty Cashier's payments for month, £8, viz., Goods £2 5s., Trade Expenses £5 15s.
,, 30. Robert Kelly takes cash for private use, £50.
,, 30. Paid to Bank out of cash, £250.

Enter up in the proper Books, and prepare Trial Balance 30th March, 1907.

2. Describe fully the process of balancing the Cash Book and Bank Account. When should this be done, and how often should the Cash be counted?

3. *A* buys from *B* goods £51 18s. 7d. on 3rd Jan., 1907. At the end of February *A* discovers that *B* has charged (in this item) for 10½ yards Cloth at 3s. 8d. per yard, when the price should have been 3s. 2d. per yard; and on 14th Feb. *A* sends back to *B* one piece of Worsted 72 yards, at 4s. 8d. per yard, as being of wrong shade; this is part of the goods bought on 3rd Jan. as above. Give the proper entries which *A* should make in his Books relating to these transactions.

4. Explain the Ledger Index: state how it may be specially arranged for speedy reference when the Ledger contains a very large number of accounts.

5. What are vouchers? Describe a good system of arranging them.

CHAPTER XVI

Bills of Exchange and their Object—Drawing Bill—Accepting Bill—Parties to a Bill—Discounting Bill—Journal and Ledger Entries—Stamps

The Student who has mastered the Elementary Work covered by Part I. may now proceed to make himself acquainted with *Bills of Exchange* and their treatment in Accounts. In the following pages he will find a full explanation of the methods of dealing with all Bill transactions: for further information as to their origin, history, forms, and the law relating to the rights and obligations of parties, he is recommended to refer to Messrs. Hooper & Graham's "Modern Business Methods" (Macmillan), in which the general subject of Bills is very fully discussed.

A Bill of Exchange is:—"An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer." (Bills of Exchange Act, 1882.)

The object of, and advantage derived from, the legitimate use of a Bill of Exchange may be best explained by a simple illustration. On the 1st January, 1902, Joseph Wardrop sells goods, value £240, to Alfred Chalmers, upon the terms—nett cash in four months. Thereupon Chalmers becomes Debtor to Wardrop for this amount, and this debt is called an "open account." During the month of January, Wardrop finds that if he had the £240 *now* in his possession he could employ it profitably in the purchase of other goods; *or* he finds that he is in need of cash *now* with which to discharge his liabilities, or for some other purpose of his business. In the ordinary course of trade, he cannot demand the money from Chalmers until the "agreed term of credit" has expired, and even if he were to demand payment, probably it would not suit the convenience

of the Debtor to depart from the settled arrangement. Therefore the only course open to Wardrop is to *sell the Asset* represented by this Debt, which becomes due and payable 1st May, 1902; and the shortest, cheapest, and most convenient way of converting this "open account" into an immediately realisable asset is by means of a *Bill of Exchange.*

Due 1st May, 1902.

£240 : 0 : 0 London, 28th January, 1902.

Three months after date pay to my Order, the sum of Two Hundred and Forty Pounds, value received.

To Mr. Alfred Chalmers,
12, Market Square,
Leicester.

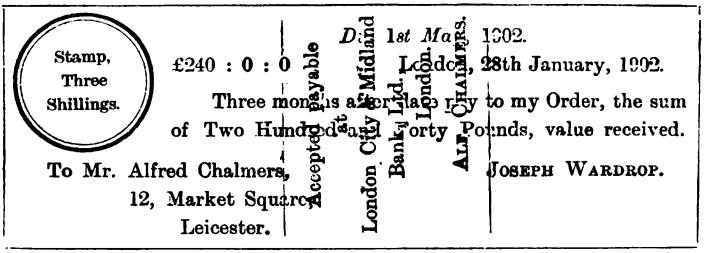
JOSEPH WARDROP.

Drawing the Bill.—After having obtained the consent of Alfred Chalmers to this arrangement, Joseph Wardrop writes out, or "draws," a Bill in the above form; he is the "Drawer," and Chalmers is called the "Drawee." (In its present condition the document is often described as a "Draft.") The amount is inserted in figures as well as in words, to prevent alterations: the Bill is dated 28th January, at three months, expiring 28th April: * three *days of grace* are added by *law*, making the actual date when payment is due to fall on 1st May, that being the actual date of expiry of the term of credit originally allowed by Wardrop to Chalmers. This Due Date is also referred to as the date when the Bill "matures."

Accepting the Bill.—The Bill having been "drawn" is now sent by Wardrop to Chalmers, with a request that the latter will make himself responsible for the payment thereof, or in other words that he will "accept the liability," and that he will add to the Bill a signed Statement of such "acceptance." Until this is done the document is of no value, and is in no way binding upon Chalmers. The latter person complies with such request by writing across the face of the Bill the words "Accepted" followed

* No Days of Grace are allowed in Germany, France, Italy, Denmark, Sweden and Norway. Ten Days are allowed in Russia. The Days of Grace ought to be abolished: whatever their *raison d'être* may have been, it has long disappeared.

by his signature. (The signature alone would imply "acceptance of liability" and would be sufficiently binding.) If, as is usually the case, Chalmers intends to pay the Bill, when due, through the agency of a London Bank, he will write across the Bill as below:—


Stamp, Three Shillings.
£240 : 0 : 0
Dated 1st May 1902.
London, 28th January, 1902.
Three months after date pay to my Order, the sum of Two Hundred and Forty Pounds, value received.
To Mr. Alfred Chalmers, 12, Market Square, Leicester.
JOSEPH WARDROP.
Accepted payable at London City Midland Bank Ltd. London.
ALF. CHALMERS.

Alfred Chalmers now sends the Bill, completed, back to Joseph Wardrop; in its present form the document is often described as an "acceptance"; Chalmers being now called the "Acceptor."

It may be observed here that frequently in practice, as a safeguard against fraud, in the event of the Draft getting into wrong hands on the way, the *signature* of the Drawer (Wardrop) is not placed upon the Bill *until* it returns to him bearing the signature of the Acceptor.

.....

The Student will now understand what is meant by the "Parties" to a Bill, viz.:—

Drawer: The person who draws the Bill.....(Wardrop).

Drawee, and subsequently the *Acceptor:* The person upon whom the Bill is drawn..... ..... (Chalmers).

Payee: The person to whom (or to whose "order") the amount is payable .....(Wardrop).

(The Drawer and the Payee are not *always* the same person).

Endorser: Before Wardrop can dispose of the Bill he must place his signature on the *back*, and become an "Endorser."

The person who is the owner of a Bill of Exchange is described as the "Holder."

When Wardrop drew this Bill, he did so with a certain definite object in view, viz.: the raising of money. How is this to be obtained?

If either Wardrop or Chalmers be of good financial standing, the Bill can be sold at once, for its full value, less the Discount (or interest) for the period which has to elapse before payment is due. Wardrop may sell it to his Banker, or to a Bill Broker, or he may hand it over to one of his own Creditors in satisfaction of a Debt owing. As a general rule, a Drawer of a Bill would deal with it through his Banker.

Discounting the Bill.—Suppose that on 31st January Wardrop takes the Bill to his Bank: the Bank will pay to him, or credit his account with, the full amount of the Bill, £240, and will charge him, or debit his account, with Discount (or interest) as follows:—

From 31st January to 1st May: 90 days on £240 at (say) 4½% per annum, £2 13s. 3d. Wardrop is now in possession of Cash £237 6s. 9d. (the 3s. he paid for the Bill Stamp is assumed to be a Petty Cash item, and is not introduced as a payment here). This transaction is called "Discounting."

The advantage to Wardrop is apparent: that which was formerly an "open account" in his Books is converted into actual cash in hand, which he may employ in the manner which will yield him most benefit. The debt which was part of his "locked-up property" is now changed into a "free" asset, with which he can continue his commercial operations. The fact of the Bill having been "accepted" by Chalmers puts an end to the possibility of any dispute as to the amount owing by the latter, or as to the due time for payment. It also gives Chalmers the assurance that he cannot be called upon to pay before 1st May; Wardrop has gained his object, and Chalmers is in no worse position than before.

It must be remembered that, before Wardrop hands the Bill to his Bank, he endorses it; by so doing he, the Endorser, becomes responsible to the Bank, or to any Holder, for its payment in the event of failure to pay on the part of Chalmers.

Having endeavoured to describe the *legitimate* purpose and use of a Bill of Exchange, it will be necessary to refer at a later stage to the subject of "Accommodation Bills," which, in

the writer's opinion, cannot be included under the designation "legitimate," and which have too often been the cause of serious loss.

It is most desirable that the Student should, before dealing with Bill Books, have a clear understanding of the *effect* of such Transactions as have been set forth, upon the Accounts of both the Drawer and the Acceptor. Stated first in Journal form, as being the readiest means of exhibiting these effects, the Transactions up to 31st January will appear as follows:—

JOSEPH WARDROP'S JOURNAL.

	1902 Jan.			£	s.	d.	£	s.	d.
		1	Alfred Chalmers *Dr.*	240	0	0			
			To Goods Account ...				240	0	0
A		28	Bills Receivable A/c. *Dr.*	240	0	0			
			To Alfred Chalmers, for Bill due 1st May, 1902				240	0	0
B		31	Bank *Dr.*	240	0	0			
			To Bills Receivable A/c. for Chalmers's Bill Discounted				240	0	0
C		,,	Discount A/c. *Dr.*	2	13	3			
			To Bank, for 90 Days' Discount on Chalmers's Bill at 4½%				2	13	3

Explanation.—(A) Wardrop receives from Chalmers the Bill in exchange for the "open debt" owing by Chalmers. The *Bill* (the amount of which is) *Receivable* by Wardrop is a new Asset, and the amount thereof is debited to a "Bills Receivable" Account in Wardrop's books, Chalmers's *personal* account being credited.

(B) As Wardrop now parts with the Bill, his Bills Receivable Account is credited, and in exchange the Bank becomes indebted to him.

(c) Discount Account is debited, and the Bank Account is credited, with the amount charged by the Bank for interest for the unexpired term of the Bill.

JOSEPH WARDROP'S LEDGER.

Dr. ALFRED CHALMERS. *Cr.*

19	02		£	s.	d.	19	02		£	s.	d.
Jan.	1	To Goods ..	240	0	0	Jan.	28	By Bill	240	0	0

Dr. GOODS ACCOUNT. *Cr.*

19	02		£	s.	d.	19	02		£	s.	d.
						Jan.	1	By Chalmers ...	240	0	0

Dr. BILLS RECEIVABLE ACCOUNT. *Cr.*

19	02		£	s.	d.	19	02		£	s.	d.
Jan.	28	To Chalmers ...	240	0	0	Jan.	31	By Bank	240	0	0

Dr. BANK ACCOUNT. *Cr.*

19	02		£	s.	d.	19	02		£	s.	d.
Jan.	31	To Bill	240	0	0	Jan.	31	By Discount ...	2	13	3

Dr. DISCOUNT ACCOUNT. *Cr.*

19	02		£	s.	d.
Jan.	31	To Bank	2	13	3

We shall now see how these transactions, up to 28th January, affect the Accounts of Alfred Chalmers, the Acceptor of the Bill. In his case, the only matters to be dealt with are the purchase of the Goods and the "acceptance" of the Bill. The dealings between Wardrop and his Bank do not affect Chalmers in any way; all that the latter has to do is to pay the amount on the due date at the prescribed place to the "Holder" of the Bill, whoever he may be.

ALFRED CHALMERS'S JOURNAL.

	1902			£	s.	d.	£	s.	d.
	Jan. 1	Goods Account.	*Dr.*	240	0	0			
		To Joseph Wardrop					240	0	0
	28	Joseph Wardrop	*Dr.*	240	0	0			
A		To Bills Payable Account for Bill due 1st May, 1902 ...					240	0	0

Explanation.—(A) By "accepting" the Bill, Chalmers becomes indebted, *not* to Joseph Wardrop, but to the person (whoever he may be) who is the *Holder* of the Bill at maturity. In place of Wardrop, therefore, Chalmers has now a new Creditor, viz., the "Holder of *Bills* which are *Payable* by A. C.," abbreviated into "Bills Payable."

ALFRED CHALMERS'S LEDGER.

Dr. GOODS ACCOUNT. *Cr.*

1902		£	s.	d.					
Jan. 1	To Wardrop ...	240	0	0					

Dr. JOSEPH WARDROP. *Cr.*

1902		£	s.	d.	1902		£	s.	d.
Jan. 28	To Bill	240	0	0	Jan. 1	By Goods ...	240	0	0

Dr. BILLS PAYABLE ACCOUNT. *Cr.*

					1902		£	s.	d.
					Jan. 28	By Wardrop ...	240	0	0

Payment at Maturity.—When, at the due date, the Bill is to be paid ("met," or "honoured") Chalmers will instruct his Bank to pay ("retire") the Bill on 1st May, and the Bank will debit the amount to his account. Chalmers's Journal would then shew

May 1. Bills Payable Account. Dr. £240
to Bank 240.

The money will be received by Wardrop's Bank, but that fact will not affect Wardrop's accounts in any way, *he* having finally parted with the Bill and received its value on 31st January. If Wardrop had *not* so discounted the Bill, but had retained it in his own possession until maturity, he would, a day or two prior to 1st May, hand it to his Banker for collection, and the money would be placed to his credit. Wardrop's Journal would then shew

May 1.	Bank	Dr. £240	
	to Bills Receivable		240.

.....

It will facilitate the Student's future work if he carefully note at this point, the *Effect* of the Bill Transactions, as already explained, upon the Accounts of both the Drawer and the Drawee.

Transaction.	Effect in Books of :—	
	Drawer.	*Drawee.*
Drawing Bill.	*Nil.*	*Nil.*
Accepting Bill.	Bills Receivable A/c. *Dr.* Drawee *Cr.*	Drawer *Dr.* Bills Payable A/c. *Cr.*
Discounting Bill.	Person with whom Bill is Discounted, *or*, Cash *Dr.* Discount A/c. *Dr.* Bills Receivable A/c. *Cr.*	*Nil.*
Payment of Bill at Maturity.	If previously Discounted, *Nil.* If *not* previously Discounted, Cash (or Bank) *Dr.* Bills Receivable A/c. *Cr.*	Bills Payable A/c. *Dr.* Bank (or Cash) *Cr.*

STAMP DUTIES ON BILLS OF EXCHANGE.

	s.	d.
Bill payable on demand or within 3 days after date (any amount)	0	1
Bill payable otherwise than as above :—		
Not exceeding £5	0	1
Over £5 and not exceeding £10	0	2
,, £10 ,, ,, £25	0	3
,, £25 ,, ,, £50	0	6
,, £50 ,, ,, £75	0	9
,, £75 ,, ,, £100	1	0
,, £100, for every additional £100 or fraction thereof	1	0

Bill drawn and expressed to be payable out of the United Kingdom, when actually paid or endorsed or in any manner negotiated in United Kingdom :—

	s.	d.
Over £50 and not exceeding £100	0	6
,, £100, for every additional £100 or fraction thereof	0	6

Bills falling due on a Sunday, Good Friday, or Christmas Day are payable the *preceding* business day.

Bills falling due on a Bank Holiday (other than Good Friday or Christmas Day) are payable the *following* business day.

(NOTE.—*Exercises Nos. 1 to 27 are contained in Part I.: Elementary*).

EXERCISE 28.

Walter Thompson & Sons, of Birmingham, sell Goods to J. & R. Merivale, Cardiff, viz. :—15th January, 1902, £76 14s. 9d. ; 11th February, £25 11s. 10d. ; 21st February, £48 11s. 2d. On 1st March a Bill at three months for the total debt is drawn by W. T. & S., and is accepted by J. & R. M., payable at Parr's Bank, London.

Write out the Bill, shewing due date and stamp duty. Give Journal Entries and Ledger Accounts of both Drawer and Acceptor.

EXERCISE 29.

On 13th January, 1902, Campbell & Sons, Wolverhampton, sell goods £148 15s. 4d. to Charles Trenham, of Nottingham. On 30th January Trenham returns goods £27 14s. 3d. Campbell & Sons draw Bill at four months on 20th February, which Trenham accepts, payable at National Provincial Bank of England, London. Campbell & Sons pay the Bill into their Bank on the day before it matures, and it is duly honoured.

Write out the Bill, shewing due date and stamp duty. Give Journal Entries and Ledger accounts of both Drawer and Acceptor.

EXERCISE 30.

On 22nd January, 1902, Thomas Macfarlane, of Newcastle-on-Tyne, buys goods from Cory & Sons, Hull, £84 11s. 3d. On 12th March Cory & Sons draw Bill at three months for £84, allowing 11s. 3d. as discount. Macfarlane accepts the Bill, which is to be payable at his own place of business. On 25th April Cory & Sons buy goods from Tannett Bros., Leeds, £96 15s., and on 30th April Cory & Sons remit to Tannett Bros. a cheque for £13 5s., and Tannett Bros. agree to take over the above Bill, less 10s. discount, in settlement. Tannett Bros. pay the Bill into their Bank when it is due, and it is honoured on presentation.

Write out the Bill, shewing due date and stamp duty. Give Journal Entries and Ledger accounts of the Drawer, Acceptor, and Tannett Bros.

CHAPTER XVII.

BILL RETIRED UNDER DISCOUNT—BILL WITHDRAWN—BILL RENEWED—BILL DISHONOURED—PROMISSORY NOTE—BANK DRAFT—BANKRUPTCY OF ACCEPTOR—ACCOMMODATION BILLS

Bill Retired under Discount.—This occurs when the Acceptor of a Bill wishes to pay the amount *before* the due date.

The Acceptor may find himself in the possession of funds with which he can discharge his liability on the Bill before it falls due. If so, he must first obtain the consent of the Drawer, or of the Holder (if the Drawer has passed the Bill on to another person) to receive the amount less Discount for the unexpired term of currency. Of course, the Acceptor would only pay before maturity in consideration of a fair discount being allowed to him. This transaction is called "Retiring (or Paying) a Bill under Discount."

For example, suppose that in the case already described in the preceding Chapter, Wardrop had kept the Bill in his own hands, and that on 1st April Chalmers wished to pay the Debt, and that Wardrop agreed to allow 4½% per annum for the unexpired term—1 month—Chalmers would pay cash to Wardrop £239 2s. (being the £240 less 1 month at 4½% per annum = 18s.) and would receive back the Bill and destroy it.

In Chalmers's Journal the effect appears:—

1902				£	s.	d.	£	s.	d.
Apl.	1	Bills Payable A/c.	*Dr.*	240	0	0			
		To Cash					239	2	0
		To Discount, for Wardrop's Bill due 1st May, retired						18	0

In Wardrop's Journal the effect appears :—

19	02			£	s.	d.	£	s.	d.
Apl.	1	Cash	*Dr.*	239	2	0			
		Discount	,,		18	0			
		To Bills Receivable A/c., for Chalmers's Bill due 1st May, retired					240	0	0

If Wardrop had *not* kept the Bill in his own hands, but had discounted it at his Bank, or elsewhere, it would be necessary for Chalmers to find out, by inquiry of Wardrop, who the Holder is, and then make the arrangement with him, instead of with Wardrop.

Bill Withdrawn.—Special circumstances may arise which cause the Drawer and Acceptor of a Bill to mutually agree to its *cancellation* before it matures, and without payment of the amount. Generally this step is rendered advisable on account of the financial weakness of the Acceptor, and when it is desired that the Bill shall not in the usual course of business be dishonoured for non-payment. This transaction is called "Withdrawing a Bill." The Acceptor becomes again indebted to the Drawer "on open account," and his position is the same as it was before the Bill came into existence.

If on 1st March, 1902, Wardrop had the Bill in his own hands, and he consented to cancel it, the effect would be shewn in his Journal thus :—

19	02			£	s.	d.	£	s.	d.
Mar.	1	A. Chalmers	*Dr.*	240	0	0			
		To Bills Receivable A/c., for Bill due 1st May, withdrawn ...					240	0	0

In Chalmers's Journal the effect would be shewn :—

19	02			£	s.	d.	£	s.	d.
Mar.	1	Bills Payable A/c.	*Dr.*	240	0	0			
		To Joseph Wardrop, for Bill due 1st May, withdrawn					240	0	0

If this transaction takes place *after* Wardrop has discounted the Bill, it will be necessary for him, as Endorser, to pay the amount

thereof to the Holder before he can regain possession of the Bill. In such a case, the Bill would be allowed to mature in the ordinary way; Wardrop would provide the money with which to "honour" it, and the transaction would be simply a *loan* from himself to Chalmers.

Bill Renewed.—The Withdrawal of a Bill is frequently followed by "renewal" (i.e., the drawing of a new Bill for a further period as agreed between the parties). In such a case, to the amount of the old Bill is added *interest*, and also the stamp and any expenses, Bank charges, &c., which may have been incurred. Upon accepting a bill in renewal of a prior one, the Acceptor should take care that the prior one is cancelled. Taking the example of the Bill withdrawn by Wardrop, suppose that a new Bill at three months is to be drawn. The amount due to Wardrop is:—

1902		£	s.	d.
March 1	Amount of Bill withdrawn, due 1st May ...	240	0	0
May 1 to June 4	34 days Interest at 5% upon £240 ... ... (Note: The New Bill dates from March 1st, at 3 months, due June 4th; Interest runs from the due date of the old Bill)...	1	2	4
	Stamp		3	0
		£241	5	4

In Wardrop's Journal the transactions are set forth:—

1902			£	s.	d.	£	s.	d.
Mar.	1	A. Chalmers *Dr.*	240	0	0			
		To Bills Receivable A/c. for Bill due 1st May, withdrawn... ...				240	0	0
	,,	A. Chalmers *Dr.*	1	5	4			
		To Interest A/c. for Interest on £240, 1st May to 4th June, at 5%				1	2	4
		To Cash A/c. for Bill Stamp (on renewal)					3	0
	,,	Bills Receivable A/c. *Dr.*	241	5	4			
		To A. Chalmers for Bill due 4th June...				241	5	4

CHALMERS'S JOURNAL:—

19	02			£	s.	d.	£	s.	d.
Mar.	1	Bills Payable Account.	*Dr.*	240	0	0			
		To Joseph Wardrop, for Bill due 1st May, withdrawn					240	0	0
	,,	Interest Account.	*Dr.*	1	2	4			
		For Interest on £240, 1st May to 4th June, at 5%							
	,,	Expenses Account.	*Dr.*		3	0			
		For Stamp on new Bill							
		To Joseph Wardrop					1	5	4
	,,	Joseph Wardrop.	*Dr.*	241	5	4			
		To Bills Payable Account, for Bill due 4th June					241	5	4

The result of the foregoing Transactions may be summarised thus:—

Transaction.	Effect in Books of:—	
	Drawer.	*Drawee.*
Retiring Bill under Discount.	Cash (or Bank) *Dr.* Discount A/c. *Dr.* Bill Receivable A/c. *Cr.*	Bills Payable A/c. *Dr.* Cash (or Bank) *Cr.* Discount A/c. *Cr.*
Withdrawing Bill.	Drawee *Dr.* Bills Receivable A/c. *Cr.*	Bills Payable A/c. *Dr.* Drawer *Cr.*
Renewing Bill.	Drawee *Dr.* } for old Bill Bills Receivable A/c. *Cr.* } Drawee *Dr.* } for Interest and Stamp. Interest A/c. *Cr.* } Cash A/c. *Cr.* } Bills Receivable A/c. *Dr.* } for new Bill. Drawee *Cr.* }	Bills Payable A/c. *Dr.* } for old Bill Drawer *Cr.* } Interest A/c. *Dr.* } for Interest and Stamp. Expenses A/c. *Dr.* } Drawer *Cr.* } Drawer *Dr.* } for new Bill. Bills Payable A/c. *Cr.* }

Bill Dishonoured.—If a Bill be not paid on the due date it is "dishonoured." As we have already observed, Bills are almost invariably collected by Bankers. The original Bill drawn by Wardrop upon Chalmers was due payable at the London City and Midland Bank Limited on 1st May, and we will now suppose that the "discounting," "withdrawal," and "renewal" did not take place, but that the Bill ran its usual course, and at the appointed time Chalmers was unable to meet it. A day or two before 1st May Wardrop would pay the Bill into his Bank, just as he would pay in a cheque, and his Bank (say the Union Bank of London) will forward it to the London City and Midland Bank for "collection." The latter Bank, not having received the necessary instructions from Chalmers or his Bank at Leicester, will decline to pay, writing on the top of the Bill "no advice." As a legal formality, intended to prove conclusively that the Bill has been actually "presented" on 1st May, the Union Bank will hand it to a Notary Public, who for a small fee will again "present" it at the London City and Midland Bank, and the money not being forthcoming, he will paste a small slip (as below) on the face of the Bill, and the Bill is now said to be "noted."

(In the case of a Foreign Bill, a similar but rather more elaborate form is gone through, and the Bill is said to be "Protested.")

Noted:
1st May, 1902.

Charges 2/-

Dodson & Fogg,
Notaries Public,
Austin Friars,
London, E.C.

The Union Bank of London Limited will now return the Bill to Wardrop, and will debit his account with the amount (£240 2s.) including noting expenses.

Wardrop may now decide to take legal proceedings to recover the amount from Chalmers, or he may make suitable arrangements with that person for payment.

It will be seen that the effect of the above transaction between Wardrop and Chalmers (with the exception of the Noting

charges) is exactly the same as in the case of the Withdrawal of a Bill. The complete results in Wardrop's Journal are :—

1902			£	s.	d.	£	s.	d.
Apl.	30	Union Bank of London Ltd. *Dr.*	240	0	0			
		To Bills Receivable A/c. for Chalmers's Bill due 1st May				240	0	0
May	1	Alfred Chalmers *Dr.*	240	2	0			
		To Union Bank of London Ltd. for Bill due 1st May, dishonoured, and Noting 2/-				240	2	0

In Chalmers's Books, no entry of the £240 is necessary : he still remains indebted to the Holder of the Bill Payable. He will receive an intimation from the Union Bank that the Bill has been dishonoured, and that the 2s. noting charges have been incurred. He should thereupon enter :—

1902			£	s.	d.	£	s.	d.
May	1	Expenses A/c. *Dr.*		2	0			
		To Bills Payable, for Noting expenses					2	0

(But probably the embarrassed state of his finances will cause him to omit such a small detail !)

If a Bill is dishonoured after being discounted, the Drawer should record it by means of an entry exactly similar to the last Journal Entry of Wardrop. The Student will remember that the Drawer is liable to pay the amount to the person with whom he has discounted a Bill, in the event of dishonour. He will, therefore, immediately Debit the Acceptor and Credit the Holder with the full amount and expenses. As the Discounter is usually the Banker, the latter will debit the Drawer's account just as they would debit him with cheques drawn by him. In working Exercises in which a Dishonoured Bill occurs, the Student should bear in mind the different ways in which the Holder *may have disposed of* the Bill, and always refer to the preceding transactions connected with it :—

(*a*) The Drawer may hold it until due, and then present it personally for payment.

(*b*) The Drawer may pay it in to his Bank when due.

(*c*) The Drawer may hand it over to one of his Creditors in part payment of an account.

(*d*) The drawer may discount it.

(*c*) and (*d*) are called "negotiating the Bill."

In the event of Dishonour, the Bill must be treated in the Drawer's Books as follows:—

(*a*)	Acceptor	*Dr.*	Bills Receivable A/c.	*Cr.*	for amount of Bill.
			Cash A/c.	*Cr.*	,, ,, noting charges.
or (*b*)	Acceptor	*Dr.*	Bank A/c.	*Cr.*	for amount and noting charges.
or (*c*) and (*d*)	Acceptor	*Dr.*	Holder of Bill	*Cr.*	for amount and noting charges.

Promissory Note.—This document is not so frequently used in commercial transactions, except in connection with the payment of a "Composition" in a case of Insolvency; it is generally employed as evidence of a private loan. It takes the following form:—

Leicester, 28th January, 1902.

Three months after date I promise to pay to Mr. Joseph Wardrop, or Order, the sum of Two Hundred and Forty Pounds.

£240 : 0 : 0 ALFRED CHALMERS.

For Book-keeping purposes the Promissory Note may be treated as though it were a Bill of Exchange, and dealt with in the Accounts exactly in the same manner. There is, however, one very striking exception to this, in the case of "Bank Notes" which are Promissory Notes exempted by law from Stamp Duty. Of course, these documents are treated not as *Bills*, but as *Cash*.

Bank Draft.—Instead of paying accounts by cheque, it is the practice of many firms to send to their Bank a list of accounts payable, and to obtain Drafts drawn by that Bank upon a London Bank, in favour of the various persons, payable either on demand or at 7, 14, or 21 days' date. These Drafts resemble Bills of Exchange, except that they do not require "acceptance" (see page 170 as to stamping). For Book-keeping purposes such Drafts should be treated as *Cheques*, and not as *Bills*.

Bankruptcy of the Acceptor of a Bill.—In the event of Bankruptcy of the Acceptor, the debt represented by the Bill becomes due at once, no matter what portion of its currency may be unexpired. The Holder of the Bill is entitled to claim to rank as a Creditor of the Acceptor's estate, but simply as an *ordinary* Creditor, without any right to "preferential" payment. The Holder is *also* entitled to claim the amount from the Drawer, or any Endorser of the Bill, until he has received in all the *full* amount, with noting charges. In other words, the Acceptor, Drawer, and every Endorser are all responsible until the Holder has received 20s. in the £. The Holder may claim against any party.

Suppose that in the example given Chalmers becomes bankrupt: the Bill, having been discounted, is in the hands of the Union Bank of London Limited, and the amount is £240. If Wardrop's account with the Union Bank is at all "shaky," the Union Bank will retain the Bill and receive the Dividend which is yielded by Chalmers's estate, say 7s. 6d. in the £, equal to £90, leaving a deficiency of £150, which would have to be charged to Wardrop's account.

If Wardrop's Bank account shews a satisfactory balance, the Bank will debit him with the £240 and return the Bill to him. He will in that case be the Creditor entitled to receive the £90 from Chalmers's estate, leaving the balance (£150) to be written off as a Bad Debt.

If both Chalmers and Wardrop became bankrupt during the currency of this Bill, the Union Bank will rank as a Creditor against *each* estate for £240. Say that Chalmers's estate realised 7s. 6d. in the £, and Wardrop's 10s. in the £:

	£	s.	d.
The Bank would receive in Dividends, *re* Chalmers ..	90	0	0
,, Wardrop ...	120	0	0
	210	0	0
Leaving a Bad Debt on their transaction of ...	30	0	0
	£240	0	0

The amount of Discount originally deducted in this case from the face value of the Bill, does not enter into any subsequent calculations: the Holder claims the *full* amount, no matter how much he actually gave for the document.

Accommodation Bills.—Before leaving the general subject of Bills of Exchange, it may be well to point out how their legitimate and commercially beneficial uses have been diverted into a wrong channel, and how they have been largely employed as mere instruments for "raising the wind." A. is in need of money, and has little or nothing in the shape of assets which he can convert into money. B. is a friend in a better financial position and is not indebted to A. A. draws a Bill (payable to himself) upon B., and persuades B. to accept it, and A. is then able to discount it upon the strength of B.'s financial status. A. promises B. that when the Bill becomes due, he (A.) will be able to find the money with which to meet it, and assures B. that he will not hear anything more of the matter. Very frequently the result is quite the contrary: when the Bill matures A. has spent its proceeds and is quite unable to provide funds to meet it, consequently the Holder compels B. to pay, and the latter gains, it is hoped, valuable experience in exchange for his money.

Such a document is an "Accommodation Bill": as no "value" passes, when it is drawn, between the Drawer and Acceptor, the *latter* is not liable to pay the amount to the *former*, but he *is* liable to a *third party*. Of course the obtaining money from the "third" party is the sole object aimed at in drawing the Bill.

EXERCISE 31.

Griffiths, French & Co. draw a Bill dated 15th February, 1902, at six months upon John Beale—£350. On 17th May J. B. pays the Bill less discount at 4 per cent. per annum. Give Journal entries of both Drawer and Acceptor.

Assuming that the Bill had been drawn 15th February, as above, and withdrawn on 1st July, give Journal entries, of both parties, of this transaction.

EXERCISE 32.

The Bill mentioned in Exercise 31 having been drawn 15th February and withdrawn 1st July, a new Bill is drawn on 15th July at three months for the amount *plus* interest from 18th August and stamp. Give the entries in Journal form shewing the latter transaction in the accounts of both parties.

EXERCISE 33.

On 17th January, 1902, Henry Monteith sells goods to Robert Kilburn (£100 4s. 9d.), and on 28th February, 1902, Monteith draws a Bill for £100 upon Kilburn, at three months, allowing 4s. 9d. discount. The following transactions take place:—

29th March—Monteith discounts Bill with his Bank at 4 per cent. per annum.
31st May—Bill is dishonoured and noted (expense of noting, 1s. 6d.).
30th June—Kilburn pays the total amount due, and 10s. for interest.

Give the entries in Journal of Drawer and Acceptor, also Ledger accounts.

CHAPTER XVIII

Bills Receivable Book—Bills Payable Book

In the preceding pages all transactions connected with Bills of Exchange have been dealt with by means of Journal entries, with the object of shewing their results from the "double-entry" standpoint, in a simple and concise manner. When Bills, either Receivable or Payable, are only occasionally employed, and are few in number, the Journal may be most conveniently used as the book of "original" entry; but if the Bills are sufficiently numerous, it is better to use Bill Books, viz., "Bills Receivable Book" and "Bills Payable Book." These books are sold by most stationers, and are frequently used simply as "Registers" of Bills, and not as Books of Account forming part of the regular system. If it is found to be necessary to keep Bill Books, they should be incorporated with the double-entry system, as will now be explained.

Bills Receivable Book.—An example of this Book is shewn on page 124, with 18 entries of "Joseph Wardrop," covering a period of three months. It must be remembered that "Bills Receivable" include not only Bills drawn by Wardrop and accepted by his Debtor, but also Bills which have been handed to him by his Debtor (with the latter's endorsement) and which have been drawn by the latter or by any other person. Another column headed "from whom received" is often provided in this book, but seeing that in the majority of cases the Bills are received direct from the Acceptor, the extra column becomes to a great extent superfluous, and is therefore not shewn in our example.

JOSEPH WARDROP'S BILLS RECEIVABLE BOOK

January, 1902.

No.	Date.		Drawn by	Accepted by	Payable at	Term.	Due date.		Ledf. fo.	Amount. £	s.	d.	Remarks.
	1902.						1902.						
1	Jan.	4	Self.	Dean & Sons.	London City & Mid. Bank, London.	3 mos.	Apl.	7	28	154	16	0	Bank, April 5th.
2		10	do.	J. Yewdall & Co.	Glyn & Co. ,,	4 ,,	May	13		228	10	0	
3		18	Peacock Bros.	Thos. Whitaker.	Lloyd's Bank ,,	3 ,,	Apl.	21		75	0	0	From Peacock Bros.
4		21	Self.	Armitage & Son.	do. ,,	6 ,,	July	24		257	13	0	Bank, April 19th.
5		23	do.	Jas. Ramsden.	Union Bank ,,	3 ,,	Apl.	26		142	5	0	Bank, April 25th.
6		28	do.	Alfd. Chalmers.	L.C. & M. Bank ,,	3 ,,	May	1		240	0	0	,, Jan. 31st.
						Dr.	B./R.	A/c.	81	1098	4	0	
				February,	1902.								
7	Feb.	4	Self.	Jackson & Webb.	Glyn & Co., London	4 mos.	June	7		152	15	0	
8		12	do.	Dean & Sons.	L.C. & M. Bank ,,	3 ,,	May	15	28	139	18	0	
9		14	do.	Brooke & Co.	Barclay & Co. ,,	3 ,,	May	17		165	0	0	
10		19	do.	Dawson & Terry.	28, George St., Brist'l	4 ,,	June	21		113	2	0	
11		28	do.	A. Whitehead.	L. C. & M. Bank, London.	4 ,,	July	1		185	14	0	
						Dr.	B./R.	A/c.	81	756	9	0	
				March,	1902.								
12	Jan.	1	Frank Blair.	Locke & Sons.	N. P. Bank, London	4 mos.	May	3		100	0	0	Received Mar, 3rd.
13	Mar.	4	Self.	Chas. Leyland.	do. ,,	3 ,,	June	7		215	9	0	From Campbell and Rowe.
14		18	do.	W. Morrett & Co.	Lloyd's Bank ,,	3 ,,	June	21		108	17	0	
15		,,	do.	Collis & Browne.	Parr's Bank ,,	3 ,,	June	,,		187	10	0	
16		31	do.	Henderson Bros.	Union Bank ,,	4 ,,	Aug.	2		146	14	0	
17		,,	do.	Rogers & Shaw.	L.C. & M. Bank ,,	3 ,,	July	3		65	3	0	
18		,,	do.	Hy. Kirkman.	Beckett & Co., Leeds	4 ,,	Aug.	2		200	0	0	
						Dr.	B./R.	A/c.	81	1023	13	0	

For facility of reference, and as a means of avoiding any repetition of details in subsequent entries, all the Bills are "numbered" when received. If the Acceptor (in whose Books the Bills are, of course, "Bills Payable") has inserted his own number, the latter is ignored in the Drawer's (or Holder's) Books.

The "Date" is the date of drawing the Bill, which may be treated as the date of "receipt" for posting purposes. It is not, of course, the actual date when the completed Bill comes to the Drawer's hands, but that is not a material difference.

In this example the majority of the Bills are "Drawn by" Wardrop, described as "Self." The exceptions to this are Nos. 3 and 12. With regard to No. 3, Peacock Bros. have purchased goods from Wardrop, and have given him in part payment a Bill which they had drawn upon Thos. Whitaker, who was indebted to them. The "Remarks" column shews that the Bill is received from Peacock Bros. With regard to No. 12, the Bill has been handed to Wardrop by Campbell and Rowe, who were the "holders" of Locke & Sons' acceptance drawn by Blair. Blair bought goods from Campbell & Rowe, and handed to them this Bill: they in turn hand it to Wardrop. In this case the "posting date" will be March 3rd—the actual date of receiving the document.

It is useful to record where each Bill is "payable at," more especially in case of the subsequent dishonour of any Bill.

Upon receipt of a Bill, it is entered in this Book and posted to the credit of the person from whom it is received. For example, take the Ledger account say at folio 28 of

28 *Dr.* DEAN & SONS, Ipswich. 28 *Cr.*

1901			£	s.	d.	1902			£	s.	d.
Nov.	4	To Goods ..	25	16	9	Jan.	4	By 3 months Bill No. 1	154	16	0
	12	,, ,, ...	32	7	1						
	26	,, ,, ..	46	11	5						
	28	,, ,, ...	22	18	2						
	30	,, ,, £154/16/0	27	2	7						
Dec.	6	,, ,, ...	56	11	0	Jan.	18	By Returns ...	2	9	0
	11	,, ,, ...	46	9	8	Feb.	12	,, 3 months Bill			
	20	,, ,, £142/7/0	39	6	4			No. 8	139	18	0

NOTE.—*Examination Papers* sometimes contain the item "Sold Goods for Bill," which may be dealt with as a Journal entry, "Bills Receivable Account.—Dr. to Goods Account;" but *in practice* the customer should always appear in a Personal Account, he being debited with the Goods through the Sales Day Book, and credited with the Bill through the Bills Receivable Book.

On the credit side the two Bills received from this firm are shewn as postings from the Bills Receivable Book, folio 1. In the latter Book the folio of Dean's account (28) is inserted in the "folio" column.

The Bills Receivable Book is added up at the end of each month, and the totals are posted to the debit of "Bills Receivable Account" in the Ledger, say at folio 81.

81 — *Dr.* BILLS RECEIVABLE ACCOUNT. *Cr.* 81

19	02			£	s.	d.	19	02		C.B	£	s.	d.
Jan.	31	To Sundries ...	1	1098	4	0	Jan.	31	By Bank	35	240	0	0
Feb.	28	,, ,, ...	1	756	9	0	Apl.	5	,, ,, ...	35	154	16	0
Mar.	31	,, ,, ...	1	1023	13	0		19	,, ,, ...	35	75	0	0
								25	,, ,, ..	35	142	5	0

The Bills having been posted :—

> *Separately* to the credit of personal accounts,
> *and in monthly totals* to the debit of Bills Receivable Account,

the "double-entry" is complete. The Balance of the Bills Receivable Account should always agree with the total amount of Bills actually in hand.

So far we have dealt with the "receipt" of the Bill; the question remains what entries are to be made when it is "parted with" either in exchange for cash under discount or at due date, or by being handed over to a creditor.

Our Bill Book is not required further in this connection, save that a memorandum may be made in the "remarks" column shewing how the Bill is disposed of.

Suppose that :—

1.—Bill No. 6 is discounted on 31st Jan. with Bank (Dis. £2 13s. 3d.).

2.—Bill No. 1 is handed to Bank on 5th April, and honoured.

3.—Bill No. 3 is handed to Bank on 19th April, returned and dishonoured on 21st, with 2s. expenses.

4. Bill No. 5 is handed to Bank on 25th April, and honoured.

The following entries will appear in the

35 *Dr.* CASH BOOK. *Cr.* 35

				Disc'nt	Cash	Bank						Disc'nt	Cash	Bank		
19 Jan	02 31	To Bills Receivable (A)				£ s. d.	19 Jan	02 31	By Disc'nt A/c., Bill					£ s. d.		
		No. 6	81			240 0 0			No. 6 ...					2 13 3		
Apl	5	,, ,,	1 81			154 16 0	Apl	21	By Peacock Bros. Bill							
	19	,, ,,	3 81			75 0 0			No. 3 dishonoured					75 2 0		
	25	,, ,,	5 81			142 5 0										

(A) Another way of entering a discounted Bill would be to insert the £2 13s. 3d. in the Discount (Dr.), and the *net* proceeds, £237 6s. 9d., in the Bank column (Dr.) The *gross* amount and the *discount* are separately shewn in the above example of Cash Book as probably they would be so treated in the Bank Pass Book.

The postings from the Cash Book to Bills Receivable Account explain themselves, and on 25th April the total amount of the 14 Bills in hand should agree with the *balance* of that Ledger account. Peacock Bros. will, of course, be debited from the Cash Book with the £75 2s. for dishonoured Bill, and Wardrop has the right of calling upon both Peacock and Whitaker to pay him the amount due to him in respect thereof.

In the case of a Bill Receivable being handed over to a Creditor, either subject to discount or at its full value, the matter should be dealt with in the Journal, as previously explained.

BILLS PAYABLE BOOK.

No.	Date	Drawn by	Payable at	Term	Due date	Led. fo.	Amount			C'sh. Bk. postings		
										Date	Fo.	Am'nt
	19 02			mos	19 02		£	s.	d.			
1	Jan 6	Williamson & Co	L. C. & M. Bnk., Ldn.	3	Apl 9		120	0	0			
2	14	Barker Bros. ...	,, ,,	4	My 17		218	16	0			
3	Feb 11	Maynard & Sons	,, ,,	3	14		84	9	0			
4	20	Chas. Jordain ...	,, ,,	3	23		136	5	0			
5	27	S. Wood & Co.	,, ,,	4	Jne 30		92	10	0			
6	Mr 15	Alf. Beresford...	,, ,,	3	18		75	0	0			
7	19	F. & W. Lawford	,, ,,	3	21		109	13	0			
8	28	Martin & Sons	,, ,,	4	Jly 31		126	8	0			
							963	1	0			

The Student having followed the description which has been given of the form and method of working the Bills Receivable Book, will easily perceive that the Bills Payable can be dealt with in a similar manner; indeed, very often *one* Bill Book is made to answer two purposes, viz., the Bills Receivable are entered in the front part, and the Bills Payable at the other end of the book, the same ruling of columns being applicable to both.

It is not necessary, therefore, to repeat the explanation already given, but the Student's attention is now directed to the form of Bills Payable Book above shewn. It will be noticed that there is no column for "accepted by": this is regarded as unnecessary, seeing this Book is intended to contain an account of Bills which have been accepted by the Trader himself.†

Special attention is directed to the columns on the right hand side of the Book: these are intended to obviate the necessity for having a Bills Payable account in the Ledger, and have the effect of making this book not only a *Register* of Bills Payable, but also a *Ledger Account.* When a Bill falls due, and it is paid either in Cash or through the Bank, the entry on the Credit side of the Cash Book is posted to the Bills Payable Book, in the spaces provided for that purpose, *opposite* the particular Bill which has been paid. (In the event of a Bill having been retired under discount, the total of cash and discount is entered in one amount.) If this plan is adopted, at the time of balancing the books, all the items which have no Cash entry opposite them are "liabilities," being the Bills which are still "running."

The individual items are, of course, posted to the debit of the various personal accounts, and no Journal entries whatever are necessary. *

† (The Trader, of course, is "liable to pay" any Bill which he has *endorsed* and handed over to another person, but any such liability would only take actual shape if a Bill Receivable were not met by the Acceptor, and would enter into the Accounts by a Journal entry or a Cash Book entry of the payment.)

* *Examination Papers* sometimes contain the item "Bought Goods for Bill." This may be dealt with by means of a Journal entry, "Goods Account, Dr. to Bills Payable Account;" but *in practice* the Person from whom the Goods are bought should appear and be credited with the amount through the Purchases Day Book, the issuing of the Bill being treated as in the text.

The convenience of this plan being seen, it may be asked, Why not deal in a similar way with the Bills Receivable, and keep no Ledger account for them? In many instances, no doubt, that course may be adopted; but as Bills Receivable are disposed of in *several* ways, whilst Bills Payable, as a rule, are only disposed of in *one* way (i.e., payment at maturity), the two cases are not quite similar, and it is not thought advisable to introduce such an arrangement at this stage of the Student's work.

EXERCISE 34.

Prepare a page of Bills Receivable Book in the form shewn on page 124, and enter the following Bills, all drawn by Thos. Galbraith & Son (except where otherwise stated): each Bill may be payable at any London Bank; the names of Acceptors are stated. Shew monthly totals:—

1902.—April 3rd, at 4 months, Kenneth Bros., £72 15s.
April 7th, at 3 months, Bernard & Co., £48 13s. 6d.
April 18th, at 3 months, Anderson & Manns, £84.
April 23rd, at 4 months, Dent, Morgan & Co., £123 9s.
April 29th, at three months, Moody, Nichols & Son, £119 6s.
May 6th, at 3 months, Constable & Sons, £81 9s.
May 12th, at 6 months, Wm. Woodford, £52 10s.
May 21st, at 3 months, Mason & Capes, £75 10s.
May 24th, at 3 months, Scott, Fawcett & Co., £64 18s.
May 27th, at 4 months, Johnston & Son, £89 5s.
May 31st, at 3 months, Meredith & Field, £48.
June 6th, at 3 months, King & Mabie, £143 8s.
June 10th, at 4 months, Macdonald & Co., £113 4s.
June 19th, at 3 months, from Drawer, Henry Bromyard (acceptor, Adamson & Son), £82 10s.
June 29th, at 3 months, Davis & Wells, £73 15s.

EXERCISE 35.

Referring to Exercise 34, write up the Cash Book entries of T. Galbraith & Son in connection with the following transactions:—

Bill dated April 18th, is paid into Bank the day before maturity and is honoured.

Bill dated May 12th, is discounted at Bank on August 15th (discount 9s.), and duly honoured.

Bill dated June 6th, is discounted at Bank on July 9th (discount 10s. 6d.), and dishonoured when due, with 3s. expenses: King & Mabie remit total amount (which is paid into Bank) on September 20th.

On Sept. 17th, T. Galbraith & Son purchase goods from Davis & Wells £84, and send the Bill dated 29th June, £73 15s. with Cheque £10 and charge 5s. discount in settlement. Give the Journal and Cash Book entries shewing this transaction.

EXERCISE 36.

On 10th Jan., 1902, Smith buys goods £200 from Jones, upon the following terms: -Cash payment 28th Feb. less 1¼% discount, or a three months Bill from 1st April for the full amount. Assuming that Smith has £400 in the Bank at 3% interest, which course would be best for him to adopt?

CHAPTER XIX

Classification and Analysis of Sales—Modification of Sales Day Book

The next matters to which the attention of the Student is invited are the different methods which may be employed in the arrangement of the entries of Sales and Purchases, and their classification or Analysis. In approaching such a subject we are at once confronted with the question "What are the particular conditions or requirements of the "Business"? and in the present work only a general indication can be given of some of the systems which may be used, and the special points which should be kept in view in deciding upon any arrangement.

In this connection it may be useful to remind the Student that the *first* consideration is the *proper management and control* of the Business in all its ramifications, and that the *Book-keeping* throughout should be arranged on such lines as to assist and facilitate such management and control. The mistake is sometimes made, and it is a foolish one, that a cast-iron system of Accounts is fitted on to a business, and in a course of years is looked upon as the *best* and *only* system suited to all requirements, whereas growth, expansion and altered conditions of trade call for modifications and improvements in the methods of recording the transactions. For example, in certain businesses it is now necessary to ascertain the approximate results of trading; not *annually* as was the custom some years ago, but *monthly*, and by a proper arrangement of Accounts and with little labour such results can be shewn, subject to but slight corrections when the half-yearly or annual Balance-sheet is prepared.

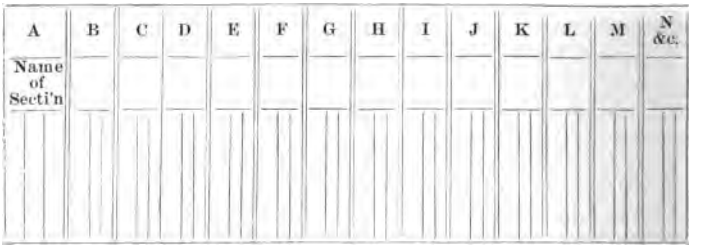
Classification of Sales of Goods.—The first deviation from the simple form of Sales Day Book given on page 51 is that occasioned by the necessity for knowing the amount of sales of different kinds of goods. For this purpose the Goods are divided into "Classes" or "Groups," and if the number of such "Classes" is small, the form of Sales Day Book on page 51 may be used with the addition of money columns in which the items may be classified, as below:—

Folio	Name and Particulars.	Price		Total Amount	Analysis.					

This plan of adding "Analysis" columns can only be used conveniently if the divisions or classes are *few*. If it is necessary to divide the goods under numerous headings, the book becomes so wide as to be awkward to handle. In that case the columns must be dispensed with altogether, and the entries must be "dissected."

Dissection.—Some sheets of paper are ruled with money columns, each column headed with the name of a "class" of goods, and also lettered A, B, C, and so on. The ordinary form of Sales Day Book is used, with the addition of a narrow column between the two money columns; in this column the Clerk writes opposite each item the letter representing the department or "class" to which it belongs. The amount of each item is then written on the Dissection Sheet under its proper heading; the columns are added up and a summary made: the total of the latter will agree with the total of the Sales Day Book for the week or month which has been dealt with. Of course, the proper marking of the Day Book is the important step, and this should be done by someone who is quite familiar with the sections into which the goods are to be divided. It is useful to copy the dissection summary into the Day Book at the end of the period, for future reference; and the sheets need not be kept afterwards unless there is some probability of their being wanted again in case of an error in the dissecting.

DISSECTION SHEET: SALES.



The insertion in the Day Book of these letters A, B, C, &c., is not absolutely necessary, but it enables the sheets to be filled up by any clerk, who otherwise may not know to which section each item belongs.

Separate Sales Day Books.—The third plan of dividing the goods is to use a separate Day Book for each class. Where one class of goods is handled in a separate portion of the business premises, this is the most convenient method, no analysis columns being required. Each Day Book should be labelled with a distinctive letter, which is to be written, with the Day Book *folio*, in the Ledger, so as to make it clear in which book the entry is to be found.

So far, we have been dealing only with the money value of the Goods sold. If it be considered necessary to also keep a record of the *quantity* or *weight*, separate columns for these must be added to the books which have already been explained.

Classification of Sales into Districts.—Apart altogether from the question of the analysis of *goods*, there is another important point to be considered, viz., the advantage of knowing amongst what *towns* or *districts* the sales are distributed, or the "Geographical Analysis." In a large business it is useful to have this information, in order that steps may be taken to check any "falling off" in a particular locality. Another point is that often the sales of a large concern are effected by means of Travellers, each having a particular section of country allotted to him and which he "works;" often his remuneration is based to some extent upon the amount of business done in his area each year. A simple example would be the case of a firm employing three Travellers, one of whom journeys in the *North* of England, the second in the *Midlands*, and the third in *London* and the *South*. The Sales Day Book might be provided with three Analysis Columns, headed respectively N., M., and S. (representing the three districts), and the entries would be extended into their proper columns.

Another plan is to have a separate Day Book for each district. The question of the precise method to be adopted must, of course, depend upon the size of the business and the number of districts, and also to a certain extent upon the arrangement, if any, as to analysis of *goods*. It is not advisable to encumber the Day Book with *two* sets of analysis columns, for "goods" and "districts," and in case of doubt it is best to deal with the latter point by means of "dissection."

It must be remembered that if the "Sales" are to be analysed in any way, the "Returns Inwards" must be analysed also, and should be dealt with in a precisely similar manner.

A summary of the monthly analysis of Sales is very useful, affording a constant indication of the progress of the Business: the following is an example of a twelve months' Analysis of Sales of a Manufacturer of Fire-clay and Pottery Goods:—

SUMMARY OF SALES.

Month.	White Goods.	Glazed Bricks.	Sanitary	Salt Glazed.	Faience.	Tiles.	Terra-Cotta.	Red Bricks.	Cane Glazed.	Sundries	TOTAL.
January											
February											
March											
April											
May											
June											
July											
August											
September											
October											
November											
December											
TOTALS											

Modifications of the Sales Day Book.—In Chapter VIII. the ordinary or "full" form of Sales Day Book is described. We will now briefly explain a few of the ways in which the Sales Day Book may be modified with a view to reducing labour, &c.

(1.)—When goods are despatched, a press copy of the invoice is made: these copies are numbered consecutively, no details are written in Day Book beyond the date, number, name, address, and total amount of sale. By this method one Day Book entry only occupies one line. For details the press copy must be referred to.

(2.)—When goods are despatched, a "priced" Delivery Note is sent with them and serves as an invoice. Duplicate is retained in the Delivery Book. The Day Book is written up as per No. 1.

(3.)—The "priced" Delivery Book, with duplicate as per No. 2, is kept, and *no* Sales Day Book is used. The Ledger postings are made directly from the Duplicate to the Ledger, the latter containing the *number* of the Note in place of a Day Book folio. In order to ascertain the total of Sales, the amount of each "Note" is written on a slip, and added up to the end of the month.

(4.)—When the "office" is some distance from the "warehouse" or place whence goods are sent out, the sales are entered on a sheet (in Day Book form) at the latter place, and a carbon duplicate is sent daily to the office. These sheets, called "Sale Sheets," are fastened together for the month and form the Sales Day Book.

(5.)—When transactions are *very* numerous, Day Books are kept for alternate days, say one for Monday, Wednesday, and Friday, and the other for Tuesday, Thursday, and Saturday: therefore each day one book is at liberty for purposes of posting, analysis, &c.

These will suffice to shew the Student that even so apparently simple a matter as the arrangement of the Sales Day Book is worthy of proper consideration, and the practical object aimed at when a system is decided upon should be the maximum of useful information combined with the minimum of labour.

he following is an Example of the Sales Day Book of a dealer in Lead, Glass, and Plumber's sundries.—

SALES DAY BOOK.

Ledger Folio.	Name and Particulars.	Price.				Invoice Total.			Analysis.																
									Lead.			Glass.			Sanitary Fittings.			Gas Fittings.			Sundries.				
			£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.		
	January 1st, 1902.																								
	Thackray & Kaye, Bradford.																								
348	1 sheet 5 lbs. lead, 11c. 3qr. 17lbs	15/3	9	1	6				9	1	6														
	1 5 ft. 6 in. bath, 3rd class ...	26/-	1	6	0										1	6	0								
	1 1¼ in. bath waste	2/9		2	9											2	9								
	47 lbs. lead waterpipe	-/2		7	10					7	10														
	Per rails, carriage paid					10	18	1																	
	Septimus Field, Brighouse.																								
	144 sqs. 15 oz. glass, 14¼ × 12¼ × 7¾																								
97	cut to pattern No. 1	-/2	1	4	0							1	4	0											
	72 sqs. 15 oz. glass, 14 × 8½ × 6,																								
	cut to pattern No. 2 ...	-/1¾		10	6								10	6											
	½ cwt. of putty	8/-		4	0																	4	0		
	Order No. 1703. 1 crib	3/-		3	0																	3	0		
	Per rails. 1 cask	4/-		4	0	2	5	6														4	0		
	Smithson & Carruthers, Ltd., Leeds																								
	1 doz. common double brackets	2/-	1	4	0													1	4	0					
294	1 doz. opal comet globes, complete with burners, holders, &c.	1/5		17	0														17	0					
	1 cwt. best white lead	25/-	1	5	0																1	5	0		
	1 iron key	2/-		2	0																	2	0		
	Per our wagon					3	8	0																	
	Sandow, White & Co., Harrogate.																								
	5 patent iron cisterns, stamped	12/6	3	2	6										3	2	6								
275	3 19 in. marble plug basins ...	6/-		18	0											18	0								
	26 Pigs lead, 12c. 0qr. 14lbs. ...	13/3	8	0	8				8	0	8														
	Per rails, carriage paid					12	1	2																	
			28	12	9	28	12	9	17	10	0	1	14	6	5	9	3	2	1	0	1	18	0		

EXERCISE 37.

Enter the following Sales for January, 1902, in the Sales Day Book of A. Ingham & Co., Coal and Lime Merchants (with columns for "coal," "coke," and "lime"):—1st Jan., Hy. Wilkinson & Son, lime, £9 8s. 7d.; F. Mart & Co., coke, 18s. 6d.; 3rd Jan., Wm. Inchbold, coal, £1 16s.; 4th Jan., Day & Maud, coke, £1 7s.; 7th Jan., Rider Bros., lime, £5 15s., and coke, £1 15s. 4d.; Hadwen & Co., coal, £55 9s. 8d.; 9th Jan., Charles Marks, coal, £15 7s. 3d.; 10th Jan., Fields, Ltd., coke, £5 8s. 6d.; 13th Jan., The Estate Syndicate, lime, £7 9s. 10d.; 14th Jan., F. Mart and Co., coke, £1 17s. 10d., and coal, £3 16s. 8d.; 15th Jan., Hadfield and Jones, coal, £8 2s., and lime, £6 15s. 7d.; 18th Jan., Blakey & Son, coal, £3 4s.; 20th Jan., Driffield Bros., lime, £1 17s. 9d., and coke, 15s. 6d.; 21st Jan., Foster & Philip, lime, £4 10s. 3d., and coal, £18 16s.; 22nd Jan., The Estate Syndicate, coke, £5 5s.; 24th Jan., Hy. Wilkinson, lime, £4 3s.; 27th Jan., Hadwen & Co., coal, £34 3s. 6d., and coke, £7 10s. 5d.; 28th Jan., Wm. Wilson, coal, £1 16s.; 29th Jan., The Estate Syndicate, lime, £6 15s., and coal, £14 8s. 6d.; 31st Jan., Chas. Marks, coke, £3 4s. 9d.

EXERCISE 38.

Enter the following Sales into the Sales Day Book of Guest and Denison, Wholesale Drapers. The Sales are to be divided into three departments, A, B, and C (each item is marked with the letter indicating the department):—

Jan. 15th, 1902, J. Mortimer & Co. (a), 12 yds. blue serge @ 2/6, £1 10s.; (b) 10 pairs blankets @ 10/3, £5 2s. 6d.; (a) 1 piece lining, 56 yds., @ 6d., £1 8s.; (c) 12 doz. reels white thread @ 10d., 10s.; (c) 4 pairs lace curtains, 3/6, 14s.; Jan. 21st, 1902, Sefton & Dixon (a), 1 doz. woollen shawls @ 3/6 each, £2 2s.; (c) 8 ozs. black wool @ 5½d., 3s. 8d.; (a) 120 yds. blue ribbon @ 2½d., £1 5s.; (a) 18 yds. striped shirting @ 1/-, 18s.; Jan. 26th, H. Cripps & Co. (b), 25 yds. bleached linen @ 8d., 16s. 8d.; (b) 3 eiderdown quilts at 45/-, £6 15s.; (a) 12 yds. indigo serge @ 3/3, £1 19s.; Jan. 31st, Shires & Sons (a), 30 yds. blue serge @ 2/6, £3 15s.; (a) 24 yds. grey lining @ 9d., 18s.; (a) 10 black woollen shawls @ 2/3, £1 2s. 6d.; Feb. 1st, Morley, Marsh & Jubb (c), 4 pairs coloured curtains @ 5/6, £1 2s.; (c) 2 lbs. grey wool @ 3/9, 7s. 6d.; (c) 36 reels silk thread @ 2/2 doz., 6s. 6d.; (b) 10 pairs linen sheets @ 8/6, £4 5s.; (a) 2 gross large brass buttons @ 6/3, 12s. 6d.; Feb. 7th, W. Emsley, Sons & Co. (a), 1 piece 48 yds. woollen shirting @ 1/-, £2 8s.; (a) 24 yds. cream cotton @ 4d., 8s.; Feb. 12th, E. Farnell (a), 6 gross linen buttons @ 2/6, 15s.; (a) 18 yds. indigo serge @ 3/3, £2 18s. 6d.; (a) half doz. large woollen shawls at 6/6 each, £1 19s.; Feb. 23rd, Forbes & Lewis (b), 8 pairs blankets at 9/6, £3 16s.; (b) 56 yds. white bleached cotton for sheets @ 4½d., £1 1s.

CHAPTER XX

Analysis of Purchases—Goods and Expenses—Merchant's and Manufacturer's Purchases

Analysis of Purchases.—In Chapter IX. the methods of dealing with Invoices Received and the common form of Purchases Day Book are shewn, the book being used at that stage for recording only "goods" bought (page 58). In addition to "goods," there are purchases of other kinds which require attention, and amongst these there are items such as Machinery or Trade Utensils, for use in the business, and also items of "Expense" (Repairs, Advertising, &c.). In practice, these are often *omitted* from the books until the actual payment takes place, they being then dealt with as Cash transactions. For example, say that in the month of January Alfred Rowland, a Builder, repairs the warehouse roof and sends in his bill (£10), which is paid on 24th March. In order that the Books shall be *correct* on 24th March, the Ledger should contain—

REPAIRS TO BUILDINGS ACCOUNT.

1902.		£	s.	d.
Jan. 31	To A. Rowland...	10	0	0

ALFRED ROWLAND.

1902.		£	s.	d.	1902.		£	s.	d.
Mar. 24	To Cash... ...	10	0	0	Jan. 31	By Repairs...	10	0	0

Instead of this, in such a case frequently *no* personal account is opened at all, and *no entry* is made until 24th March:—

REPAIRS TO BUILDINGS ACCOUNT.

1902.		£	s.	d.
Mar. 24	To Cash, Rowland	10	0	0

The latter method involves a little less labour, and often works satisfactorily; but from a strict Book-keeping point of view it is incorrect. The Books should shew all transactions immediately they occur, and the incurring of the liability to Rowland which happened when he finished his work, is a "transaction." It may therefore be taken as a safe rule, not to be departed from without sufficient reasons, that all items where a liability is incurred shall be brought into the Books at once, just as the Purchases of

Goods are brought in, and for convenience the term "Purchases" will be used to cover all such items.

It will be seen now that our Purchases may be divided into three broad divisions, "Goods," "Permanent Assets" (such as Machinery, &c.), and "Expenses." "Goods" includes commodities for re-sale or materials for manufacture. "Permanent Assets" includes assets which are required for the purposes of the business, and which are not exhausted during the year (although their value may grow less), and which are not included in the Stock-in-trade. (These are frequently referred to as "Capital Expenditure.") "Expenses" includes all items for which no actual tangible asset remains, such as Fuel, Repairs, &c. :—

PURCHASES DAY BOOK.

Date.	No. of Invoice.	Name.	Short Particulars.	Ledger Folio	Am'nt.	Analysis.				
						Goods.	Ma-ch'nery	Fuel.	Re-pairs.	G'nral Exp'ns

The above is a simple example of the Purchases Day Book with analysis columns. Where the analysis columns required are few, the "Guard Book" system, explained on pages 59 and 60 (Part I.) may be used, the Invoices being pasted on the left-hand page and the money columns ruled on the right-hand page. But if Invoices are numerous such a form of Book becomes awkward to use, and generally the above plan is to be preferred.

Much that has been said upon the subject of the Classification of Sales applies equally to Purchases, and the nature of the business and the number of transactions must be carefully considered in fixing upon any particular method.

If the business is a "*Merchant*" one (not manufacturing) the "*Goods Purchased*" should be analysed or dissected under the same headings as the "Goods Sold." The "*Permanent Assets*" should be subdivided under the headings of the various accounts, but in such a business they will chiefly consist of such items as "Fixtures," "Office Furniture," "Horses and Carts," &c. The "*Expenses*" may be sub-divided into as many sections as may be desired, but this should not be carried too far. The

following may generally be considered sufficient:—Rent, Rates and Taxes, Printing and Stationery, Advertising, Repairs, Horse-keep, Commission, Carriage, Packing Materials, Gas, Water, and Electricity, Trade Expenses.

In the case of a Manufacturing business, the goods purchased will chiefly consist of material to be worked up, and may be placed under the heading of "Material" (any further analysis or sub-division being done in a subsidiary book or on sheets). When finished articles are bought to be sold again, they should be kept distinct from "Material" and placed under the heading, "Goods for Re-sale." The permanent assets will in this case include "Machinery and Plant," which may be divided into "Engines and Boilers," "Fixed Machinery," "Loose Plant," "Tools," "Patterns," &c. The expenses may be sub-divided as before mentioned, adding "Fuel" and noting that "Repairs to Machinery" are best kept separate from "Repairs to Buildings."

If Land and Buildings are part of the Assets of the business, a column should usually be provided for any expenditure on "New Buildings" or permanent additions to this asset.

It is always useful to have one or two analysis columns extra, for exceptional items which do not properly belong to any of the "headings" in use.

The object aimed at in all cases should be accurate information as to the amount of goods or material purchased, either as a whole or classified, so that a correct gross profit can be ascertained; and also the amount of the expenses under different heads for purposes of comparison and with a view to economy of management or administration.

A Ledger Account is opened for each "heading" of the Purchase Book Analysis, and the latter book is added monthly, and the totals posted to the debit of the Ledger Account. As in the case of "Sales" an Annual Summary of the Purchase Book shews useful figures in a convenient form, although such a summary forms no integral part of the accounts for that period.

Returns Outwards, if few in number, may be recorded at the *end* of the Purchase Day Book, instead of using a separate book for the purpose. The totals may be deducted from the Purchases, instead of being posted separately to the Impersonal Account or Accounts.

The following is an example of a Purchases Day Book for one month, analysed and posted to the ledger:—

PURCHASE DAY BOOK.

Date.	Name.	Description of Purchase.	B. L. Folio.	Invoice Total.	Materials.	Carriage.	Rent, Rates, Taxes, and Insurance.	Fuel, Gas, Water, and Electricity.	Printing, Station'ry, and Advertising.	Repairs to Machinery & Plant.	Horse Keep and Hire.	Repairs to Buildings.	Packing Materials.	Trade Expenses.	Capital Expenditure. New Buildings.	Capital Expenditure. Machinery and Plant.	Capital Expenditure. Horses, Carts, &c.
1902																	
Feb. 1	Richardson & Co. ...	Mungo ...	298	86 15 0	86 15 0												
,,	McKinley & Son ...	Wool ...	179	47 10 0	47 10 0												
3	Inksip & Ball	Plumbing ...	145	1 14 9								1 14 9					
5	Shaw, Gill & Co. ...	Printing ...	303	2 1 8					2 1 8								
6	Rapid Machine Co. ...	Looms	295	180 0 0												180 0 0	
7	Foster Bros.	Rags	97	28 9 0	28 9 0												
,,	Inland Revenue ...	Property Tax	140	12 1 8			12 1 8										
8	Machine Oil Co. ...	Oil	171	8 5 0										8 5 0			
10	Carr-Thorpe	Crates	45	15 9 4									15 9 4				
12	W. Merton	Hay	176	6 5 0							6 5 0						
13	City Accountant ...	Electricity ...	51	35 4 0				35 4 0									
15	Valley Coal Co. ...	Coal	330	7 9 6				7 9 6									
17	M. Bland	Mungo ...	10	35 14 2	35 14 2												
18	Swale & Wood	Hay and Corn	315	4 6 5							4 6 5						
,,	Wm. Mortar	Mason	190	15 9 6								15 9 6					
20	Wood & Smith ...	Blacksmith ...	340	7 10 4						7 10 4							
22	W. Lupton	New Horse ...	160	45 0 0													45 0 0
25	Richardson & Co. ...	Mungo ...	298	32 7 10	32 7 10												
27	Premium Insurance Co.	Fire Insurance	260	5 10 6			5 10 6										
28	Jos. Weyler	Rent	335	12 0 0			12 0 0										
,,	Midland Railway Co. ...	Carriage ...	187	11 17 8		11 17 8											
,,	Northern Canal Co. ...	Do. ...	201	8 6 9		8 6 9											
				609 8 1	230 16 0	20 4 5	29 12 2	42 13 6	2 1 8	7 10 4	10 11 5	17 4 3	15 9 4	8 5 0		180 0 0	45 0 0
	Less Returns			18 19 9	15 7 5								3 12 4				
				590 8 4	215 8 7	20 4 5	29 12 2	42 13 6	2 1 8	7 10 4	10 11 5	17 4 3	11 17 0	8 5 0		180 0 0	45 0 0
	"Impersonal" Ledger folios, see page 157...				I. 15	I. 31	I. 64	I. 83	I. 96	I. 114	I. 127	I. 139	I. 155	I. 181	I. 2	I. 5	I. 8

EXERCISE 39.

Prepare Purchase Day Book of Arthur Marshall, Cloth Dyer and Finisher, with Analysis columns as follows:—Dyeing and Finishing Materials; Carriage; Fuel and Gas; Water; Rent, Rates, and Taxes; Printing and Stationery; Horse keep; Repairs to Machinery; General Repairs; Sundry Expenses; New Machinery; Horses, Carts, Harness, &c.

1902.			£	s.	d.
Jan.	1	J. T. Middleton, Fodder...	10	5	8
,,	2	Frost & Holgate, Ammonia	6	18	5
,,	2	Mumby, Sons & Co., Carriage	2	3	7
,,	10	Hart Bros. Ltd., Slack	24	8	3
,,	13	Scarth, Sheldon & Hooke, Pressing Machine...	85	0	0
,,	13	H. Spencer, Bran and Oats	11	10	6
,,	13	W. T. Frais & Sons, Note Paper, &c.	1	3	6
,,	21	Moxon & Whiteley, Indigo	13	5	9
,,	30	R. S. Manville, Fuller's Earth	11	2	0
Feb.	4	H. J. Shenton, Ltd., Brown Horse	28	10	0
,,	4	Stables & Storey, Whitewashing, &c.	1	15	6
,,	4	The City Council, Gas, £6 18s. 2d.; Water...	15	17	3
,,	11	Hollingshaw & Wood, Nuts and Bolts for repairing Machinery		8	6
,,	19	Overseers of the Poor, Poor Rate	3	7	8
,,	23	W. S. Bass & Co., Soda	5	3	6
Mar.	1	Oldroyd & Grant, Violet Dye	10	4	8
,,	8	W. Redding & Co., Ledger and Day Book ...	1	11	3
,,	8	Light, Bates & Perry, Coal	3	4	8
,,	15	Hy. Smith, Collector, Income Tax	15	3	2
,,	17	A. Sheard & Co., Soap	8	10	6
,,	19	The City Council, Highway Rate	5	6	2
,,	26	H. Brailsford, Medical Fee	1	1	0
,,	31	Thackray & Co., 3 mos. Rent of Dychouse, &c.	15	7	6
,,	31	R. S. Manville, Fuller's Earth	11	2	0
,,	31	Midland Railway Co., Carriage...	5	4	0

CHAPTER XXI

Cash Book—Passing all Items Through Bank—Travellers' Collection Sheets—Agents' Cash Sheets

In Chapter XII the connection between the Bank Account and the Cash Book is introduced: before fixing upon a particular form of Cash Book, the method to be observed in dealing with "Bank" items should be considered. The first question to be asked is "are *all* the receipts to be paid into the Bank?" This is not a matter of principle but of practice, and rests, of course, upon the decision of the proprietor of the business. The system of paying into the Bank *all* monies received offers the following advantages:—

It simplifies the Cash Book by reducing the number of entries.

It renders more difficult any attempt at falsification of the Books.

An inspection of the Cash Book gives a better idea of the financial position of affairs.

The chief objection to this method is the extra cost in respect of Bank Charges, but this is usually far outweighed by the advantages referred to. If this method is adopted, the second question arises, "How often should the money be taken to the Bank?" In many businesses the cash is banked *daily*; if that is inconvenient, the money should be paid in at least once a week, and oftener if a large amount has accumulated. The Student may be reminded at this point that retaining in hand a "cheque" always carries risk, and cheques should be cleared through the Bank as quickly as possible, as a safeguard against their "dishonour," and the question of interest is also worth notice. It may be taken as a bad practice (except in a few special cases) to hand over to a creditor in payment of his account a cheque which has been received from a customer. There are two reasons for this, viz., it discloses to the creditor the name of the customer, and as long as the creditor keeps the cheque in his possession there remains the risk of its being dishonoured.

Supposing that this method of paying all receipts into the Bank is employed, the Debit side of the Cash Book becomes of course the Dr. side of the Bank Account.

CASH BOOK (Dr.).

			Discount.						Bank.		
1902			£	s.	d.	£	s.	d.	£	s.	d.
April	2	To Hall & Thorpe ...		2	6	4	17	6			
	3	,, Grange & Sons ...		6	6	12	12	0			
	5	,, Castle, Holt & Co. ...				8	10	0			
	,,	,, Walter White & Son		5	0	10	0	0	35	19	6
	7	,, Square & Cross ...	1	5	0	25	10	0			
	8	,, Dobson & Mann ...		1	3	1	4	0			
	10	,, Raywood, Croft & Son		2	9	2	13	0	29	7	0

Whilst the ruling of this page is the same as that of the Cash Book in Chapter XII, the columns are used in a different way. The first money column shews the Discount allowed, the second money column shews the separate amounts received from the various customers, whilst the third money column shews the sums paid into the Bank. In this Example the total receipts up to April 5th are banked in one sum (£35 19s. 6d.), and the same on April 10th. Of course in practice it is often impossible to pay into the Bank on any day all the money which is received that day, as frequently sums are received after the Bank closes. This causes no real difficulty in working, if a line is drawn across the second money column underneath the last amount included in the lodgment, and the total is entered in the Bank column opposite that item. And even if, as often happens, the actual date of payment to Bank be the *day following*, in order to include *all* the previous day's receipts, no confusion arises.

There is one point of detail which requires explanation, if this form of Cash Book is used. Unfortunately, a customer may sometimes be in a rather "tight" pecuniary position, and therefore unable to pay his debt when it is due: in such case he may send a "post-dated cheque," i.e., a cheque bearing a date some days or weeks ahead For posting purposes, such a cheque should be entered in the Cash Book on the day when it is

received; but as it cannot be paid into the Bank until its due date arrives, the amount should *not* be entered in the money column, but simply noted inside as a memorandum. When the day comes for the cheque to be paid into the Bank, the entry must be repeated, and this time the amount will be carried into the money column in the ordinary way. The example given on page 147 will make this clear.

The system of passing *all* monies received into the Bank necessarily implies that all payments shall be by cheque or Bank draft. (A number of small items may be paid *in cash* out of the proceeds of a single *cheque* payable to "self.") The advantage, in point of safety, in paying debts by cheque (or draft) "to order" is considerable, and this is also the cheapest method of sending a remittance by post.

If *all* payments are made by separate cheques it is only necessary to have two money columns on the Credit side of the Cash Book, the first for "Discount" received and the second for "Bank."

If there are a number of small amounts which can be more conveniently paid in cash, then another column is necessary to shew these separate items, their total being carried into the Bank column as representing the single cheque which is drawn for the whole.

CASH BOOK (Cr.).

			Discount.						Bank.		
1902			£	s.	d.	£	s.	d.	£	s.	d.
April	3	By Wilson & James ...	1	17	6				32	10	0
	5	,, Hopkinson & Co. ...	2	14	3				52	8	0
	7	,, Andrews & Burgh ...		13	9				6	3	0
	9	,, Eyre & Calder ...			4		9	8			
	,,	,, Simpson & Son ...			3		5	6			
	,,	,, Barrett Bros.... ...					12	0			
	,,	,, Fordham & Co. ...			6		8	6	1	15	8
	11	,, Mason, Hill & Son ...		15	4				14	5	0
	12	,, H. Jeffery							20	0	0

In this example the items on April 9th are paid in cash out of proceeds of a cheque "to self" for £1 15s. 8d. which is drawn and cashed for that purpose. All the other items are payments by cheque.

The student will probably inquire, "How are wages to be paid under the system?" If the exact amount of the wages can be ascertained *before* the actual time of payment, then a cheque for that amount can be drawn. This applies to those businesses in which the wages are calculated up to, say, Thursday evening, and paid the following day. But if, as is often the case, the exact amount required cannot be ascertained until the hour of payment, and when an *estimated* sum must be provided beforehand, the matter may be dealt with in this way:—The *actual* amount of wages paid is entered in the Cash Book, instead of the amount of the *cheque*, and at the end of each month an adjustment is made, either by paying into the Bank any surplus or by drawing a separate cheque for any shortage (the latter having been temporarily borrowed from the Petty Cash). For further explanation of this, see the remarks on "Wages," page 200.

The following is a full example of a Cash Book, in which all receipts go to the Bank and all payments are by cheque:—

Dr. CASH BOOK. *Cr.*

1902		Discount £	s.	d.	Bank £	s.	d.	1902		Discount £	s.	d.	Bank £	s.	d.
Mar. 1	To Balance at Bank				146	18	4	Mar. 3	By Bills Payable ..				50	0	0
3	,, Winter & Smith		2	9	5	16	0	5	,, J. Mortimer ...	2	10	0	47	10	0
,,	,, Pickering & Sons		11	8	25	0	0	7	,, Wages				23	15	6
4	,, Willburn & Co....		7	3	14	1	6	11	,, Wm. Horner ...			3			
								,,	,, Ridley Bros. ...				8	6	
6	,, Allison Bros., dated Mch.20£10/2/0							,,	,, W. Thornham ...			4	10	0	
								,,	,, J. White				15	0	
8	,, Cash Sales ...				2	18	7						4	9	1 18 3
10	,, Tatham, Hall&Co		18	4	36	17	0	,,	,, Thos. Falshaw & Sons	3	17	6			74 0 0
11	,, Cross & Co. ...		7	2	14	9	0	54	4	7					
								14	,, Morrison Bros. ...		15	9			29 10 0
13	,, H. Newman ...		3	9	6	10	0	,,	,, Wages						19 12 8
14	,, Kersey Bros. ...				24	0	0	18	,, Olivers Ltd. ...		5	6			5 2 0
15	,, Cash Sales ...				3	6	5	20	,, Penney & Co. ...		3	9			7 5 0
17	,, Denison & Son ...		13	7	25	15	0	21	,, Wages						21 8 4
								26	,, Boyd & Fisher ...		11	3			22 0 0
19	,, Geo. Gretton ...	2	5	3	43	5	0	27	,, G. Lomas ...		4	6			8 5 0
20	,, P'st dated ch'que Allison, see Mar.6				10	2	0	53	7	0	,,	,, Wages				18 17 8
															329 4 5
22	,, Cash Sales ...				3	1	9								
,,	,, Wales & Co. Ltd.		17	6	34	0	0	37	1	9	31	,, Balance down ...			94 11 10
25	,, Alf. Dobson ...			9	1	12	0								
27	,, Dewsbury&Shaw		4	6	8	3	0								
29	,, Cash Sales ...				4	18	2								
,,	,, Ross & Sons ...		6	6	13	2	6	27	15	8					
		6	19	0	276	17	11	423	16	3			8	8	10 423 16 3
Apl. 1	To Balance at Bank							94	11	10					

The total of the second money column (Dr. side) of this Cash Book, £276 17s. 11d. plus the balance at the Bank on March 1st, £146 18s. 4d., equals the total of the Bank column. It is useful to add up this second column, as it distinctly shows the amount of *actual receipts* for the month, irrespective of any "balance."

Traveller's Collection Sheets.—It is often the business of a "Traveller" to collect money due from his firm's customers, in addition to selling goods to them. This is not the best plan, and is becoming less necessary now that almost every Tradesman has a Banking Account (and has facilities for remitting direct to the creditor by cheque), but it does prevail to a large extent: there is this to be said in its favour, that the Traveller can often arrange on the spot an adjustment of any little difference or dispute which might otherwise lead to much correspondence before a settlement is effected. There are various systems of working in vogue, dependent upon the length of the journey and the amount of the sums collected. If the journeys are short, the Traveller usually attends at the office of his firm at the end of each week and pays over to the Cashier the money which he has received. If he is on a longer journey and collects substantial amounts, it is the practice for him to pay the money into a Bank (by previous arrangement) in the town in which he is staying, to be passed on to his firm's Banking Account, the Traveller posting to the office the same day a list shewing the persons from whom he has received this money. It may be observed in passing that the Traveller should bring in, or pay to his firm's credit, *the whole* of his collections, and should not deduct therefrom his own travelling expenses. In a well-regulated business the "expenses" are paid by the office and dealt with as a separate matter altogether.

We will take the case of a Traveller, Mr. W. Bagman, who is away on a journey from Monday to Friday, and who collects accounts and brings in the total amount on the Saturday. He is provided first with a List of Debts due from the customers upon whom he expects to call, and, possibly, with statements of their accounts, which he will present to each one. He knows the rate of discount, if any, to which they are entitled, and he may be given authority to make "allowances" in case of disputes (much depends upon his discretion in these matters, as a too rigid adherence to stipulated terms, or a too uncompromising attitude in cases of "claims" which arise from endless causes, may lose for

his firm a profitable further "order"). The Traveller is also provided with "Collection Sheets" (or "Cash Sheets") which he enters up as follows:—

Mr. W. Bagman. COLLECTION SHEET. No. 187

Week ending 8th March, 1902.

Date.	Name.	Town.	Ledl. folio.	Amount Received. £	s.	d.	Discount. £	s.	d.	Allowance. £	s.	d.	Remarks.
1902													
Mch. 3	G. Elliott & Son ...	York		13	14	0		7	8		3	6	Error in Invoice January 20th.
,,	R. W. Condor	Thirsk ...		25	16	0		13	10				
4	Gaskell & Co.	Darlington ...		40	12	0	1	12	8				2½% Discount and 1½% extra.
5	Royal Foundry Co. Ld.	Middlesbro'...		13	10	0							
,,	Wright Bros.	W. Hartlepool		18	7	6		9	9		5	0	Allowed ½ Packages 14th Jan., 10/-.
6	Shilton & Cooper ...	W. Hartlepool		5	19	6		3	1				
7	Salt & Price	Sunderland ...		25	0	0							Promise £50 by 30th April.
,,	King, Dully & Co. ...	Sunderland ...		17	10	0		4	5				1½% discount.
,,	Halsey & Coleman ...	Newcastle ...		11	12	0		5	9				
				172	1	0	3	17	2		8	6	

These sheets are printed, numbered consecutively, and bound up, with a duplicate leaf for a carbon-copy, the latter remaining in the book for the traveller's future reference. The sheet, when written up for the week, is torn out and handed to the Cashier, with the money, £172 1s. 0d. (The Cashier should sign the duplicate as an acknowledgment that he *has* received the correct total.) Now remains a choice of two methods of bringing these transactions into the Account Books, either

(*a*) The Cash and Discount entries are copied in detail into the Cash Book and the allowance entries are copied into the Returns Inwards Book;

or (*b*) The Collection Sheet is treated *as being itself a portion of the Account Books*, i.e., the totals only of Cash and Discount are entered in the Cash Book, as follows:—

		Dis.	Cash.
Mar. 8.—To W. Bagman's Sheet No. 187...	£3 17s. 2d.	...	£172 1s. 0d.

And the total Allowances are entered in the Returns Inwards Book:—

Mar. 8.—Per W. Bagman's Sheet No. 187... 8s. 6d.

The separate items are then posted to the Ledger *from this Sheet* (hence the column for "Ledger Folio"), the Sheets being filed away week by week in numerical order.

If, as often is the case, there are several Travellers who each collect a large number of accounts weekly, it will be easily seen that the (*b*) method saves a very considerable amount of labour and space in the Cash Book, and is therefore much to be preferred. In posting, the number of the sheet is written in the Ledger, instead of the Cash Book folio, and this gives a direct reference to the original entry of the receipt by the Traveller.

If Receipt Books are used, a column for the number of the receipt should be added to the Collection Sheet.

When, as mentioned before, a Traveller remits a portion of his cash during the week, either direct to the office or through a local Bank, the Cashier will enter in his Cash Book all such amounts, which will also appear at the foot of the sheet as remittances on account, and an entry of the balance paid over at the end of the week will adjust matters.

Agent's Cash Sheet.—This is an account (made out weekly or monthly) of Receipts and Payments at an *Agency* or *Branch*, and sent in to the Head Office. The difference between this and the Traveller's Collection Sheet is that the former includes payments, usually Rent and Incidental expenses, whilst the latter contains only receipts. The Agent's Cash Sheets are kept together and form a subsidiary Cash Book, the various items are posted at the office to the respective Ledger Accounts, and only the cash remitted to the Head Office is entered in the Firm's Cash Book. (Folio columns are omitted here for lack of space.)

Dr. LEICESTER AGENCY. CASH SHEET for Week ending 8th March, 1902. *Cr.*

1902			Discount £ s. d.	£ s. d.	1902			£ s. d.	£ s. d.
Mch.	3	To Balance in hand		3 8 9	Mch.	3	By Carriage ...		4 6
,,	,,	,, Atkinson and Booth ...	5 8	10 11 6		4	,, Advertising Co. Ltd.		4 10 0
	4	,, Braithwaite Bros.	4 9	8 10 6		,,	,, Estate Co. Ltd. Rent due 28th February ...		10 0 0
,,	,,	,, Shaw & Hoker	1 8	3 11 0					
	5	,, Guy Williamson	3 9	7 7 0		5	,, Expenses to Derby ...		11 6
,,	,,	,, Wise & Sons ...	0 4	1 10 6		8	,, Commission, 2½% on Cash ...		1 15 0
	6	,, Challoner & Co. Ltd.	6 9	12 8 6					
	7	,, J. H. Anderson	12 4	23 17 0		,,	,, Remittance ...		50 0 0
	8	,, Archer, Firth, and Co. ...	1 5	2 9 0		,,	,, Balance in hand		6 12 3
			1 16 8	73 13 3					73 13 3

(Signed) GEO. W. WHITELEY, Agent.

The Head Office Cash Book will contain on March 10th (when the remittance is received) this entry, "To Leicester Agency, £50." In the above example it is understood that the customers' accounts are kept in Ledgers at the Head Office. The methods adopted when the business is large enough for separate sets of Books to be kept at an Agency or Branch will be referred to in Part III.

Bank Reconciliation Statement.—The Bank Pass Book should be frequently compared with the Cash Book, and at the time of striking a Balance a note should be made explaining any difference which may appear, on account of cheques drawn but not yet "presented" at the bank by the holder. On page 147 the Cash Book shews on 31st March, 1902, a balance at Bank £94 11s. 10d., but the Bank Pass Book may shew a balance of £124 16s. 10d., because the cheques issued to Boyd & Fisher £22 and G. Lomas £8 5s. 0d. were not "presented" until April. The Reconciliation Statement should be written in the Cash Book as a memorandum, as follows :—

31st March, 1902.	Balance per Bank Pass Book ...			£124 16 10
	Less Cheques unpresented :—			
	Boyd ...	£22 0 0		
	Lomas ..	8 5 0		30 5 0
	Balance per Cash Book ...			£94 11 10

EXERCISE 40.

Write up in the Cash Book of Rhodes & Co. the following transactions, and bring the balance down. Receipts are marked *R* and are paid into Bank every two days; payments are marked *P* and are all made by cheque.

On 1st April the balance in the Bank was £145 6s. 9d.

2nd (R) Wm. Ripley & Co. £35 11s. 9d., Discount 18s. 3d.; (P) Schenks, Ltd., £5 7s. 8d., Discount 5s. 8d.

3rd (R) Cash sales £17 18s.; (P) Wallace Bros. £70 13s. 3d., Discount £1 16s. 3d.

4th (P) Petty Cash £5; (P) Wages £75 16s. 6d.; (R) Thos. Clough £24 12s. 6d., Discount £1 6s.

5th (P) Cheque Book 10s.; (R) Norton & Co. Ltd. £163 16s., Discount, £4 4s. (P) Mason & Myers £2 5s. 6d., Discount 1s. 2d.

7th (R) The Patent Garlic Co. £36 0s. 10d., Discount £1 7s. 5d.; (P) Slack Coal Co. £80 19s. 4d., Discount £2 1s. 6d.

8th Bill Receivable for £284 paid to Bank under Discount, the Bank charging £3 for Discount thereupon.

9th (R) Redman & Co. £31 0s. 7d., Discount £1 12s. 8d.; (R) Cumbor, Lewis & Sons £14 15s. 7d., Discount 7s. 7d.

10th (R) Pratts Patent Co. £17 5s. 3d., Discount 18s. 2d.; (P) Rent £75, (P) Sovereign Steel Co. £171, Discount £9.

EXERCISE 41.

What is meant by a Post-dated Cheque, and how should it be entered in the Cash Book?

What entries are necessary in order to correct the following errors:— Cheque £5 drawn for Petty Cash and entered in Cash Book as £6. Paid cheque to Jardine & Sons £14 10s., and entered in Cash Book and Ledger as £14? (The Cash Book is kept in the form described on page 147.)

EXERCISE 42.

You are in business, and you send all Cash received to Bank daily, and pay everything by cheque (except sums under 10/- which are paid out of the Petty Cash).

On 26th June the balance in the Bank was £235. The morning post brought the following remittances:—C. & Co. £32 (Discount deducted £1); D. & Co. £8; E. & Co. £15 (Discount £1); F. & Co. £101; G. & Co. £2.

On the 27th you received H. & Co. £11; I. & Co. (Postal Orders) £19 (Discount £1); L. & Co. £3; M. & Co. £2; N. & Co. £39 (Discount £2); and for Cash Sales £23. On this day, Bills Receivable amounting to £287 were paid to Bank, under discount, the Bank charging £3 for discount thereupon.

On the 28th cheques were drawn in favour of O. & Co. £10 (Discount £1); P. & Co. £29 (Discount £2); Q. & Co. £97 (Discount £3); a bill for £100 due to-day was duly paid by the Bankers. D. & Co.'s cheque £8, was returned by Bank marked "refer to drawer." You sent an order to the Bank asking them to give you a cheque book containing 120 cheques, and to charge same to your account.

On the 30th you drew cheque for Wages £75 6s. 3d., and also a cheque payable to yourself for sundry small accounts, viz. :—

	£	s.	d.		s.	d.
R. & Co. ...	1	5	0	Discount ...	1	0
S. & Co. ...		15	0	,, ...		10
T. & Co. ...		18	9	,, ...		6
U. & Co. ...	1	7	6	,, ...	1	5

The Petty Cashier presented you with the following summary of his payments for the month :—

	£	s.	d.		£	s.	d.
Carriage ...	2	4	6	Horse keep		9	3
Office Expenses	1	9	6	Advertising	1	14	3

and you give him cheque to make up his Cash to its original amount.

On examining the Bank Pass Book, you find that the Bank have charged you £6 5s. Commission for the half-year and allowed you £3 4s. for Interest.

Enter the above transactions in the Cash Book.

CHAPTER XXII

Division of the Ledger—Sold, Bought, Impersonal and Private Ledgers—Contra Accounts—Sundries Ledger—Bad Debt Ledger

Upon entering the counting-house of a large firm, the student will possibly be surprised to find that the "Ledger," which he has always imagined as being a single volume, consists in reality of a large number of volumes, designated by various and sometimes bewildering titles; but a little experience of practical work will quickly shew him the necessity for this division of the book when the number of accounts becomes large. He will remember that the Ledger, as a whole, contains the account of every person with whom transactions, either buying or selling, take place, and also the accounts of Capital and Property of the proprietor and of his Profits and Losses.

The question "How many Ledgers are necessary?" depends entirely upon the size of the business and the conditions under which it is conducted, and no general rule can be laid down. The following is a list of the Ledgers which are usually found to be most suitable to businesses which are sufficiently large:—

Sold Ledger.—Containing the accounts of persons to whom goods are sold and the Bills Receivable Account (if any).

Bought Ledger.—Containing the accounts of persons from whom goods are bought, and also the Bills Payable Account (if any).

Impersonal Ledger.—Containing the various accounts of expenses and other "nominal" accounts.

Private Ledger.—Containing the Capital Account, the Accounts of the Property of the Business, and the Goods Account, Trading Account and Profit and Loss Account; also any other accounts which it is desirable should be treated as "private." (Frequently this Ledger is fitted with a lock and key.)

The Student should remember that in the office of a large business the Ledger is in constant demand for reference, and that

its pages should always exhibit a true and up-to-date statement of each person's account. It often becomes necessary to distribute the work of "posting" amongst several clerks, and if only one Ledger were employed this would be impossible, and the work would be sadly in arrears. The Sold Ledger is the one to which this remark chiefly applies, and it is frequently necessary to subdivide this book into two or more parts. If a number of travellers are employed, each taking a certain territory, then the Accounts of customers within each Traveller's ground may be kept in a separate book, these Ledgers being described by the Traveller's name, as "Mr. A's Ledger," "Mr. B's Ledger," &c.

The mode of division may also be into "Town" and "Country," or "Birmingham District," "London District," &c. If there is no special reason for classifying the accounts "geographically," they may be divided "alphabetically," such as "A to G," "H to M," "N to R," and "S to Z," according to the names of customers (this plan being often adopted in Bank Ledgers). A third method of division is according to the nature of Accounts, such as "Wholesale Accounts" and "Retail Accounts."

If a foreign trade is done it is advisable to keep the customer's accounts in a separate "Foreign Ledger," and if these are sufficiently numerous a separate Ledger for each country is to be recommended—"France," "Germany," "Italy," "United States," &c., &c. (in these Ledgers the *ruling* will generally require to be adapted to *foreign currency* as well as to *sterling* money; see page 209 Foreign Accounts). The reader will now understand why he may occasionally meet with 30 or 40 "Sold Ledgers" in one office.

The Bought Ledger does not, as a general rule, contain anything like as many accounts as the Sold Ledger, and except in very few cases, one Book is sufficient for this purpose.

Contra Accounts.—If a Trader A *sells* goods £10 to B, and also buys goods £8 from B, each of these items is said to be, in relation to the other item, a "Contra Account," i.e., one claim which stands in opposition to the other claim, and is to be "set off" against it when a settlement takes place. If A keeps a Sold Ledger and a Bought Ledger, he should open an account for B in each Ledger, and "transfer" the smaller balance to the larger account when B pays his debt. Of course an alternative plan would be to enter the £10 and the £8 in the same account, i.e., in

A's Sold Ledger, but that is not recommended. Further acquaintance with practical work, especially "balancing," will prove the advantage of observing this rule, viz., that where Sold and Bought Ledgers are kept, *all* entries of Sales should be posted to the former, and *all* entries of Purchases should be posted to the latter, *even if* you sell to and buy from the same person. The following is an example of transactions between Henry Marshall and Charles Arundel during April and settled on May 10th :—

MARSHALL'S SOLD LEDGER.

28 — *Dr.* — CHARLES ARUNDEL (See B.L. 45). — *Cr.* — 28

19	02		£	s.	d.	19	02			£	s.	d.
April	2	To Goods	18	16	8	April	7	By Returns ...		2	5	3
	4	,, ,,	23	7	5		10	,, Empties ...		0	15	0
	7	,, ,,	9	12	6		16	,, ,,		0	10	0
	13	,, ,,	18	9	1	May	10	,, 2½% Discount		4	11	0
	15	,, ,,	36	12	9		,,	,, Transfer from	J			
	18	,, ,,	13	10	0		,,	Bought Ledger	15	67	16	9
	23	,, ,,	11	12	4			,, Cash		109	13	0
	25	,, ,,	25	6	2							
	28	,, ,,	18	5	9							
	30	,, ,,	10	1	4							
			185	14	0					185	14	0

MARSHALL'S BOUGHT LEDGER.

45 — *Dr.* — CHARLES ARUNDEL (See S.L. 28). — *Cr.* — 45

19	02			£	s.	d.	19	02			£	s.	d.
April	11	To Returns ...		14	3	9	April	6	By Goods		59	12	8
*May	10	,, Discount, 5%...		3	11	5		23	,, ,,		25	19	3
	,,	,, Transfer to Sales Ledger	J 15	67	16	9							
				85	11	11					85	11	11

(MARSHALL'S) JOURNAL.

15

19	02			£	s.	d.	£	s	d.
May	10	Charles Arundel	*Dr.*	B45	67	16	9		
		to Charles Arundel, for Transfer ...		S28				67	16	9

In this example there are "Returns" from Arundel and also "Returns" to him. The discount on the Sales to him (deducting

(*This Discount is entered in the Cash Book.)

Returns) is 2½%; the discount allowed by him is 5%. If all the items had been posted to one Account, it would have been more difficult to ascertain the correct nett balance due from Arundel; and if the dates up to which the two accounts are "set-off" each other do not coincide, then matters are further complicated by posting to one Account.

Following the rule that no entry shall be made in a Ledger Account unless it is first recorded in some other book, the "transfer" is journalised and then posted.

When the same person has a Ledger Account in the Sold and Bought Ledgers, a note of that fact should be written on the heading of each account, as in the example, to prevent the "contra account" being overlooked at any settlement.

The Impersonal Ledger (sometimes named "Nominal Ledger") contains the accounts of Purchases, Sales, Materials, Discount, Repairs, Rent, Rates, Insurance, Printing and Stationery, Advertising, Horsekeep, Commission, Carriage, Gas, Water, and Electricity, Bad Debts, Fuel, Wages, Salaries, Subscriptions, Trade Expenses, &c., &c., and its entries mainly consist of monthly totals posted from the different books of original entry.

If there is no special reason to the contrary, the "Private" accounts may be incorporated in this Ledger.

The Private Ledger contains the Capital Account and Withdrawals Account of the proprietor (or of each partner, if the business is carried on by a firm); also the Accounts of Land and Buildings (Freehold or Leasehold), Machinery and Plant, Fixtures and Furniture, Horses, Carts, and Harness, Good-will, Patent-rights, Models or Patterns, Investments in Stocks or Shares, Ships, Money lent or borrowed in connection with the business, the Profit and Loss Account, and any other accounts of a private character, such as Income Tax, &c. (It should be observed that the term "Private" must not be here understood to refer to assets or liabilities *outside* the business, but to items which it would be inadvisable to disclose in the office generally.) This Ledger is entered up by the Proprietor, *or* by a confidential Clerk, *or* by the Accountant.

A copy of the Balance Sheet should be written in the Private Ledger, and a number of pages at the end of the book should be reserved for that purpose

When a posting is made to any Ledger, and the Ledger folio is written in the book of original entry, there should be added initials indicating which Ledger is referred to, if the entry is *an unusual one.* For instance, nearly all the items on the Dr. side of the Cash Book are postings to the Sold Ledger, and the "folio" is understood to refer to Sold Ledger, but if cash is received for any old iron sold and posted to Machinery Account at page 21 in the Private Ledger, then "P. 21" should be written in the Cash Book.

Sundries Ledger.—Certain businesses have a large number of customers with whom there is either only a single transaction, or at any rate each sale is paid for or settled before a further sale takes place. There is in these cases no particular necessity to keep together, i.e., in one account or page, all the dealings with such a customer, and Ledger space is economised in the following manner.

A Ledger called "Sundries" or "Sundry Debtors" Ledger is used, the outer margin of the leaves being cut away and lettered after the manner of an Index, so many pages being left for *A*, so many for *B*, and so on. No Index is used, the names being easily found by turning up the initial letter. The ruling is altered from the ordinary Ledger form to admit of the address being inserted.

SUNDRIES LEDGER. *Dr.* *Cr.* 1

19					£	s.	d.	19					£	s.	d.	
Apl.	4	Ashcroft, W. J.	14, Chestnut St., Godalming	28	3	10	6	Apl.	7	By Cash	45		3	10	6	A
	7	Archibald, Saml.	Priory Place, Abingdon	30	4	17	6									
	9	Aylesbury Stores Ltd.	Aylesbury	31	2	18	9	Apl.	12	By Cash 1/9	47		2	18	9	
	16	Ayre & Waters...	4, Regent Street, Basingstoke	„	5	4	2									

If these "Sundry" items are very numerous, it is advisable to transfer at the end of the year all unpaid amounts to the top of a new page upon which the new year's postings will commence, thus completely *closing* the old year's entries. This removes the necessity for searching through the items again to find any balances for the preceding year. Frequently it happens that out of 50 items 49 are quickly paid, and one remains for some time

outstanding—if it is not so transferred it is easily overlooked at a subsequent "balancing." In order to emphasise the fact that these balances are "old," they are often written in red ink.

Bad Debt Ledger.—This is another off-shoot of the Sold Ledger, and is applicable only to a business which has a large number of doubtful and bad accounts. This Ledger is used as a temporary resting-place for the accounts of customers who have become insolvent, or to whom the sale of goods on credit has been *stopped* because of their doubtful financial status. If these accounts are numerous it is much easier for the Proprietor to keep an eye on them in a separate Ledger than it would be if they were left in the general Sold Ledgers until they can be finally closed. Sometimes a long period elapses, after an account becomes doubtful, before the actual loss can be ascertained.

It is convenient to leave space at the side of the Account for memoranda relating to the circumstances of the case, and notes of the legal proceedings which may arise out of it. These notes are often of "mournful interest" to the unfortunate Creditor; but occasionally things turn out better than one's expectations, as in the second example below (which is an actual occurrence, the names only being altered):—

BAD DEBT LEDGER.

Dr. WINSTON, DODDS & Co., Birmingham. *Cr.*

19	02			J	£	s.	d.	19	02			£	s.	d.	
Feb.	17	To Transfer	...	49	54	9	6	April	15	By Cash, 1st Div., 6/8 £	76	18	3	2	Meeting of Creditors at Royal Hotel, Birmingham, Feb. 12th, 1902. Liabilities, £14,500; Assets, £5,950. Deed of Assignment to Geo. Godfrey.
								Aug.	10	,, Cash, final Div., 1/- £ ...	98	2	14	6	
									,,	,, Bad Debt A/c	J 52	33	11	10	
					54	9	6					54	9	6	

Dr. BENJM. BOUNCER, Wolverhampton. *Cr.*

19	02			J	£	s.	d.	19	02			£	s.	d.	
Mar.	5	To Transfer	...	52	63	0	0	Aug.	31	By Cash, 20/- in £ with Interest	98	64	5	2	3rd March, 1902, B.B. absconded, leaving liabilities, £400, having sold his business, &c., for £650. Creditors' petition filed 4th Mar. and Receiving Order made. B.B. obtained from Central Bank a draft, payable in New York, for £600 (payment stopped by cable). Chas. Bernard, F.C.A., appointed Trustee Aug. 18th. Trustee obtains the return of the draft from the Bankrupt, and pays dividend of 20/- in £ with interest, 4%.
Aug.	31	,, Interest ½ yr. @ 4% ...	...	J 53	1	5	2								
					64	5	2					64	5	2	

EXERCISE 43.

The following are transactions between Thos. Spencer and Robert Martell:—April 8, S. buys goods, £3 12s. 8d.; April 24, S. buys goods, £15 9s. 2d.; May 12, M. buys goods, £14 12s. 8d.; May 14, M. returns cases, £2 4s. 8d.; May 13, S. buys goods, £16 18s. 4d.; May 23, M. buys goods, £38 15s. 6d.; May 29, makes an allowance to S., £1 10s.; May 31, S. returns goods, £4 7s. 3d.; June 9, M. buys goods, £46 17s. 9d.; and June 11, M. buys goods, £18 15s. 3d.; June 28, S. allows M. discount 3½%, and M. allows S. discount 2½%; June 30, M. pays S. £83 1s. 1d. in settlement.

Prepare two accounts in Spencer's Ledger shewing these transactions.

EXERCISE 44.

What reason can you give for "journalising" the transfer of the balance of an account from one Ledger to another?

How should this error be corrected:—On July 1, £20 is received from Smith, Sons & Co., but is entered in the Cash Book "Smith Bros.," and posted to the latter's account in the Ledger?

EXERCISE 45.

C. Marlow & Sons owe £40 and become bankrupt. A Dividend of 8s. in the £ is received May 13, and the balance is transferred to the Bad Debt Account on June 30, the books being then balanced. On Sept. 17 a further dividend of 6d. in the £ is received, how should this be entered and posted?

CHAPTER XXIII

Consignment Accounts (Inwards and Outwards)—Account Sales

Consignment Accounts are the accounts shewing the transactions connected with goods which are sold by one Trader, the *Consignee*, on behalf of another person, the *Consignor*, the latter being the owner of the goods until they are sold. The selling price is usually left, to a large extent, to the discretion of the Consignee, who is paid for his services by a Commission on the Sales. With the exception of a class of "transactions" which will be referred to later, consignments are usually to or from a firm abroad. We will at present omit the subject of foreign currency which is so closely connected with foreign trade, in order not to divert the Student's attention from the simple method of treating these transactions in his Books of Account.

A Consignment may be described by the Consignee as a Consignment *Inwards*, and by the Consignor as a Consignment *Outwards*. The Student should carefully keep this distinction in mind when dealing with these transactions. First looking at the matter from the Consignee's point of view he receives goods, but does not buy them, and keeps them until they are sold. Strictly speaking, no entry of the receipt of such goods should be made in his Books of Account, although in practice the contrary is often the case. The sale of the goods on credit should not be entered in the Sales Day Book, but passed through the Journal.

Suppose that on 1st March, 1902, Thos. Woodburn consigns goods to Richard Hanlaw, at a minimum price of £100, and they are sold by Hanlaw on 24th March for cash £110. Hanlaw pays expenses £1 and charges 5% commission £5 10s. 0d., remitting on March 27th £103 10s. 0d. in settlement.

The entries in the *Consignee's* Books would be :—

CASH BOOK.

1902.	£	s.	d.	1902.	£	s.	d.
Mar. 24 To Woodburn's Consignment A/c., Goods Sold	110	0	0	Mar. 24 By Woodburn's Consignment A/c., Expenses	1	0	0
				Mar. 27 By T. Woodburn	103	10	0

JOURNAL.

1902.			£	s.	d.	£	s.	d.
Mar. 24	Woodburn's Consignment A/c.	*Dr.*	5	10	0			
	To Commission A/c. for 5% on Sales £110					5	10	0

LEDGER.

Dr. WOODBURN'S CONSIGNMENT ACCOUNT. *Cr.*

1902.		£	s.	d.	1902.		£	s.	d.
Mar. 24	To Cash, Expenses	1	0	0	Mar. 24	By Cash, Goods Sold	110	0	0
,, 27	,, Cash, T. Woodburn ...	103	10	0					
,, 27	,, Commission	5	10	0					

Dr. COMMISSION ACCOUNT. *Cr.*

1902.		£	s.	d.
Mar. 24	By Woodburn's Consignment A/c.	5	10	0

In the Books of the Consignor, the transaction may either be dealt with in the same manner as his Sales, or by means of Journal entries and a separate Consignment Account. The latter is necessary if he wishes to know the separate result of each Consignment, as follows :—

JOURNAL.

1902.			£	s.	d.	£	s.	d.
Mar. 1	Consignment to Hanlaw	*Dr.*	100	0	0			
	To Goods A/c., for Goods forwarded at minimum price ...					100	0	0
Mar. 27	Richard Hanlaw	*Dr.*	110	0	0			
	To Consignment A/c., for gross proceeds of Sale					110	0	0
	Consignment A/c.	*Dr.*	6	10	0			
	To Richard Hanlaw, for Expenses ... £1 0 0							
	Commission 5 10 0							
						6	10	0
Mar. 27	Consignment to Hanlaw ...	*Dr.*	3	10	0			
	To Profit and Loss A/c.					3	10	0

CASH BOOK.

1902.		£	s.	d.
Mar. 27	To Richard Hanlaw, nett proceeds of Consignment	103	10	0

LEDGER.

Dr. CONSIGNMENT TO HANLAW. *Cr.*

1902.		£	s.	d.	1902.		£	s.	d.
Mar. 1	To Goods ...	100	0	0	Mar. 27	By R. Hanlaw	110	0	0
,, 27	R. H. Expenses	1	0	0					
,, 27	,, Commission	5	10	0					
,, 27	Profit and Loss A/c.	3	10	0					
		£110	0	0			£110	0	0

Dr. GOODS ACCOUNT. *Cr.*

1902.		£	s.	d.
Mar. 1	By Consignment to Hanlaw ...	100	0	0

Dr. RICHARD HANLAW. *Cr.*

1902.		£	s.	d.	1902.		£	s.	d.
Mar. 27	To Consignment A/c.	110	0	0	Mar. 27	By Expenses ...	1	0	0
					,, 27	,, Commission	5	10	0
					,, 27	,, Cash	103	10	0

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

1902.		£	s.	d.
Mar. 27	By Consignment to Hanlaw ...	3	10	0

The Consignee should, of course, keep a record of goods received on consignment, for his own information, although such record is a "memorandum" only, and does not represent a transaction in the Book-keeping sense of that term. If such items occur frequently it will be advisable for him to keep a special book for Consignments received, the precise form of which varies according to the nature of the business and of the goods. Similarly the Consignor may omit from his Accounts the entry of the "sending out" of the Consignment as it really

only means the transfer of goods (still his own property) from one place to another, keeping a "memorandum" only, and afterwards dealing with the nett proceeds as an actual sale to the Consignee. The examples given are intended to shew the manner in which such transactions are expected to be treated when they are met with in examination papers, &c.

A common instance of goods dealt with under the name of "consignments" is afforded by a dealer in fruit, game, poultry, and other produce, which he receives from the owner and sells at whatever may be considered to be a fair market price. (This price is often left entirely to the Consignee to fix, and the only course open to the sender to take if he thinks he is unfairly treated is to stop sending supplies.) These transactions do not quite correspond with the example quoted above, but are really "purchases" by the Consignee at an "unfixed" price. Usually the goods arrive weekly or more frequently, according to the season, and the cash is remitted at regular intervals, after deducting "carriage."

If the Consignee takes upon himself the responsibility for the goods being paid for by the actual purchasers—i.e., if he assumes all the risk for "Bad Debts"—he usually is allowed a higher rate of Commission, and is called a "Del Credere" agent.

The following is another simple example of a Consignment transaction, with the accounts worked out. On April 15th Meredith & Co., of Middlesbrough, send to Kaufmann & Co., Melbourne, per s.s. "Crane," 100 Tons Iron Rails, on Consignment, invoicing them at a minimum price of £350. The freight charged by the Steamship Company is £30 and the Insurance premium is £6; these are paid by the Consignors on April 26th, and when the goods arrive at Melbourne the total outlay is said to be £386 (cost, insurance, and freight = C.I.F.). The goods are sold by Kaufmann and Co. for £450 on June 21st, and the disbursements of the Consignees are Cartage £24 10s. 0d., Storage £3, and the Commission on the sales is, say, £22 10s. 0d., leaving nett proceeds £400, which is remitted on June 23rd by a "sight draft" (viz., Bank draft payable on demand) received by Meredith & Co. on August 2nd, together with the "Account Sales."

CONSIGNORS' JOURNAL.

19	02			£	s.	d.	£	s.	d.
Apl.	15	Consignment to Melbourne *Dr.*		350	0	0			
		To Goods Account for 100 Tons Iron Rails, shipped per s.s. "Crane" to Kaufmann & Co.					350	0	0
	26	Consignment to Melbourne *Dr.*		36	0	0			
		To Cash Account for							
		Freight	£30 0 0						
		,, Insurance	6 0 0						
							36	0	0
Aug.	2	Cash Account ... ... *Dr.*		400	0	0			
		To Consignment to Melbourne for nett proceeds received from Kaufmann & Co.					400	0	0
	,,	Consignment to Melbourne *Dr.*		14	0	0			
		To Profit and Loss Account, for nett profit					14	0	0

CONSIGNORS' LEDGER.

Dr. CONSIGNMENT TO MELBOURNE (Kaufmann & Co.) *Cr.*

19	02		J	£	s.	d.	19	02		J	£	s.	d.
Apl.	15	To Goods ...		350	0	0	Aug.	2	By Cash, N/P ...		400	0	0
	26	,, Cash, Freight		30	0	0							
	,,	,, ,, Insurance		6	0	0							
Aug.	2	,, Profit & Loss Account ..		14	0	0							

It is not necessary here to show the Goods Account, Cash Account, and Profit & Loss Account, the postings will be easily understood from the foregoing Journal entries.

The following is the statement of particulars of the sales sent by Kaufmann & Co. to Meredith & Co. (with the draft), and is called the

ACCOUNT SALES.

Melbourne, 23rd June, 1902.

Account Sales of 100 Tons Iron Rails on account of Meredith & Co., Middlesbro', per s.s. "Crane."	£	s.	d.	£	s.	d.
Sold: Imperial Railway, 80 tons @ 87s. 6d.				350	0	0
,, Barker Bros., 20 tons @ 100s. ...				100	0	0
				450	0	0
Deduct: Cartage	24	10	0			
,, Storage	3	0	0			
,, Commission	22	10	0	50	0	0
Nett Proceeds ...				400	0	0
E. & O. E.						
(Signed) Kaufmann & Co.						

CONSIGNEES' JOURNAL.

1902		£	s.	d.	£	s.	d.
June 18	Consignment from Meredith and Co. ... ... *Dr.*	27	10	0			
	To Cash for Cartage pd. £24 10 0						
	,, Storage ,, 3 0 0						
					27	10	0
21	Imperial Railway ... ... *Dr.*	350	0	0			
	For 80 Tons Rails @ £4 7 6						
,,	Barker Bros. ... ... *Dr.*	100	0	0			
	For 20 Tons Rails @ £5.						
	To Consignment from Meredith and Co.				450	0	0
23	Consignment from Meredith and Co. ... ... *Dr.*	22	10	0			
	To Commission Account, 5% on £450				22	10	0
23	Consignment from Meredith and Co. ... ... *Dr.*	400	0	0			
	To Bank Account, for draft remitted to Middlesbro' ...				400	0	0

CONSIGNEES' LEDGER.

Dr. Consignment from MEREDITH & Co., Middlesbro'. *Cr.*

1902			J	£	s.	d.	1902			J	£	s.	d.
June	18	To Cash, Cartage		24	10	0	June	21	By Sales		450	0	0
,,	,,	,, Storage		3	0	0							
,,	23	,, Commission 5%		22	10	0							
	23	,, Draft remitted		400	0	0							
				450	0	0					450	0	0

It is not necessary here to shew the Accounts of Cash, Commission, &c., and the personal accounts of the buyers. These are ordinary postings in the Ledger of Kaufmann & Co.

EXERCISE 46.

On 1st March, 1902, Messrs. Hatchet & Co., of Sydney, forwarded consignment of Wool (valued by them at £6,400) to Messrs. Ronald Donne & Sons, of London, consisting of 1,000 bales of "Cross Arrows" fleece washed wool, each containing 240 lbs. nett, per s.s. "Ormuz," f.o.b. Sydney, which arrived at London on 20th April, and were sold on 3rd May by Messrs. Ronald Donne & Sons at 7d. per lb. (NOTE.—F.o.b., free on board, means that Messrs. Hatchet & Co., the consignors, are responsible for all charges incurred in connection with the consignment before it leaves Sydney.)

The following were Messrs. Ronald Donne & Sons' charges:—

	£	s.	d.
Insurance, £7,000 at 10/- per cent; Policy 6d.	35	0	6
Freight as per Bill of Lading	87	10	0
Stamps, Bill of Lading, and Customs charges	1	5	0
Unloading and weighing	35	10	0
Fire Insurance	3	10	0
Commission, 2 %	140	0	0

Messrs. Ronald Donne & Sons forwarded Account Sales on 4th May, together with remittance £5,000, and on 31st May remitted cheque in settlement.

Make a copy of the Account Sales and shew the entries which should have been made in the books of Messrs. Ronald Donne & Sons.

EXERCISE 47.

Referring to the particulars given in Exercise 46, shew the entries which should have appeared in the books of Messrs. Hatchet & Co.

CHAPTER XXIV

STATEMENTS—MONTHLY STATEMENT BOOK—MONTHLY PAY DAY—BANK DRAFTS—DISCOUNT—LOANS AND INTEREST—BILL DISCOUNTING

To all Traders who give credit to customers, the regular collection of debts due is a matter of the highest importance: neglect of this matter has often produced the most disastrous results. To begin with, "the terms of credit" should be clearly defined when the goods are sold; the ordinary terms may be printed on the Invoice form and altered in the case of "special" terms on any transaction.

"Statements" (see page 11) should be posted to all customers at the end of each month or quarter. The statement is a copy of the Ledger account, brought down to the date up to which payment is due, not always to the last day of the month, but to the 20th or whatever may be the trade usage. If the accounts are numerous and lengthy, the Ledger Clerk will write them out during the month, so as to reduce the labour required at the end. It is better that these statements should be always sent *by post*, instead of being delivered by Travellers or otherwise; and they should be examined by another person (the Proprietor if possible) as a precaution against wrongful manipulation of accounts. A List of Statements should be kept, and if entered in a book in the following manner it facilitates the work of supervising of punctual collection of debts. The Statement Book shews the amount *due* from each customer, and the cash receipts are written opposite each name as they come in. At the end of the month the book clearly shews whose accounts remain unpaid, and they can then receive special attention.

STATEMENT BOOK—1st MARCH, 1902.

Folio.	Name.	Amount.			Date Paid.		Cash.			Discount.			Remarks.
		£	s.	d.			£	s.	d.	£	s.	d.	
27	Langton Bros. ...	28	16	4	Mar.	10	28	2	0		14	4	
31	Peat, Martin & Co.	36	12	9									
36	J. W. Jubb ...	47	9	2	Mar.	18	46	5	6	1	3	8	
41	Scupham & Hall...	18	5	10	,,	24	18	6	8		9	2	Overpaid 10/-.
46	Low, Sons & Co. ...	23	2	5									
64	Scott & Co. Ltd....	51	3	9	Mar.	20	48	12	0	2	11	9	
72	NormanSaxon&Co.	39	5	1	,,	17	38	5	6		19	7	
		244	15	4									

The Statement Book (sometimes "Accounts Rendered Book") is not, of course, one of the Books of Account, and its entries are not to be considered as "postings" in any sense. It is simply a very useful "memorandum" or register of moneys due, and brings them into a convenient "focus" for the Proprietor's inspection.

Turning to the converse of this—i.e., the payment of liabilities—it must be observed that many Traders who devote considerable attention to the "collection" of their debts do not always regard with equal importance the question of the punctual and regular discharge of their liabilities, although, of course, the latter should naturally follow. The keeping of the Bought Ledger, and the clerical work generally, is much improved if a regular Monthly Pay Day is the rule. There are now large manufacturing businesses in which by the end of any month *all* the liabilities accruing up to the end of the preceding month are discharged. Of course, no principle of Book-keeping is affected whether a man does or does not pay his debts when due, as the Books in either case shew his actual position. But one object of this Work is to give hints when necessary upon matters appertaining to the simplification and orderly arrangement of the Book-keeper's duties, and this is certainly a point of some importance. A Monthly Pay Day relieves the Cashier from attending to payments of accounts whenever any one chooses to call. It concentrates such work into a short space of time, it enables accounts to be properly checked and verified before payment, and it gives the proprietor a clearer view of his financial obligations.

Any goods purchased on special terms, and subject to an extra discount for cash, must of course be paid for at the proper date, disregarding the "Monthly" pay-day.

The system of paying by means of Bank Drafts may be referred to now, as it is becoming very general. A Bank Draft is a Bill drawn by the Banker upon his London Agent (if desired it may be drawn upon his agent elsewhere), and payable either on demand or more frequently at 7, 14, or 21 days' date. The Drafts do not require "acceptance." Drafts on demand, or at 3 days, bear a penny stamp; other drafts are subject to the same Stamp Duty as Bills of Exchange, but most Bankers in lieu of stamping each Draft, pay a Composition Duty

to the Revenue covering their whole issue of such documents. Suppose that Joseph Chandos, of Birmingham, wishes to pay 50 accounts on 24th April. He prepares a list of the names and amounts, draws a cheque for the total, filled up "pay Drafts as per list," and hands the cheque and the list to the London City and Midland Bank Ltd., Birmingham, on 23rd April. The Banker prepares a draft for each amount, payable to the persons named, and sends an "advice" to the London Office, containing a list of these Drafts and the due dates. (The three days of grace apply to these, as in the case of Bills.) The Drafts are handed to the Trader, who delivers or posts them to the various creditors, and enters them in his Cash Book to the credit of the Bank. The Trader is saved the trouble of writing out and signing cheques for each person, and there is no risk of the amounts being altered before being presented for payment, seeing that before being paid each Draft is compared at the London Office with the list previously sent by the issuing Bank. The Banker allows the Trader part of the interest on the Draft's currency, retaining the balance to cover stamps. It is, of course, open to the recipient to decline to receive a draft instead of a cheque, but in most cases no objection is raised.

The subject of discount is an important one in connection with the proper financing of a business, and care should be taken to avoid losing any benefit of this description, as many small items may amount to a respectable sum in twelve months' trading. But friction is frequently caused by an excess of zeal in this direction, e.g., a person owing £25 14s. 3d., subject to $2\frac{1}{2}\%$ discount, 12s. 11d., leaving £24 1s. 4d. nett, will remit £24, or £24 1s. 0d., in settlement. Indeed, it is a very common practice to first deduct the correct discount, and then if the pence exceed 6d. to reduce them to 6d., and if they are under 6d. to knock them off altogether. Nothing can be said in defence of such a custom.

A much larger question, however, is the use which the Trader may make of his "credit." If he possesses ample funds, he will naturally pay promptly for his goods and obtain the fullest discount; but if he has *not* an adequate cash balance, he should consider whether borrowing within reasonable limits would not be profitable. For instance, a Trader may purchase goods upon terms such as these:—Payment in six months, nett; three months, $2\frac{1}{2}\%$ discount; prompt cash, $3\frac{3}{4}\%$. His purchases are,

say, January 1st £200, April 1st £300, July 1st £100, and he takes the full credit, paying for the parcels say June 30th, September 30th, and December 31st.

By paying prompt cash he would be allowed discount:—January £7 10s. 0d., April £11 5s. 0d., July £3 15s. 0d.; total, £22 10s. 0d. In order to do this he must borrow, say, £200 on January 1st and £300 on April 1st, repaying £400 on October 1st and the balance, £100, on December 31st. The cost of such borrowing, in interest at 5%, would be £16 5s. 0d., leaving a nett extra profit of *£6 5s. 0d.*; and the more frequently he "turned over" the money and *repeated* the discounting, the more profit would remain. This is, of course, a matter not of Book-keeping but of financial administration; still it is perhaps not altogether out of place in connection with "Discounts" and the "Bought Ledger."

The advisability of "discounting" or non-discounting a Bill of Exchange which he may hold is also a matter entirely dependent upon the state of the Trader's finances. For Bills bearing "good" names, i.e., persons of recognised commercial stability, there is a regular market at rates quoted daily in the "money column" of the newspapers. Usually the rate per annum for a six months' Bill is a trifle higher than for a four months' Bill, the reason being that the longer "currency" means a longer period of risk. If a Trader's Banking account is overdrawn and he is paying 5% interest, it will be an economy to discount any Bills he may hold, especially if the rate is 3 or 3¼%. On the other hand, if he has a surplus to his credit at his Bankers, to discount a Bill would usually be a direct loss, as he would not receive interest at the same rate as the discount. In the latter case it will be more profitable for him to "retire under discount," i.e., pay *before* they fall due any of his own acceptances which may be running, of course provided that the holder thereof will agree to such an arrangement, there being no obligation on their side to part with the Bills before due date except in exchange for the "face value" (full amount).

"The tendency in the discount market was a shade easier, fine Bills being taken more freely at 2¾ per cent."—*Times*, 17th May, 1902.

EXERCISE 48.

(*a*) What is the difference between an Invoice and a Statement?
(*b*) Describe shortly the system of paying by Bank Drafts monthly.

EXERCISE 49.

Rawlins & Sons' books contain entries of the following transactions with Turner & Rowe:—T. & R. buy goods May 26th £20 16s. 8d., and May 28th £19 15s. 4d.; May 30th they return goods £4 5s. 2d., and on May 31st return empty cases @ 15s., for which R. & S. only allow 10s. On May 31st T. & R. buy goods £3 19s. 2d., and also buy on June 3rd £4 7s. 5d. and on 11th £17 9s. 6d. On June 11th R. & S. make an allowance of £2 10s. 0d. On June 13th T. & R. remit a customer's cheque on account £30. On June 18th T. & R. buy goods £14 10s. 8d., and on 23rd £16 5s. 11d.; they return goods on June 25th (part of June 23rd purchase) £1 4s. 6d., also they buy on June 27th £12 9s. 1d., and on June 28th return empty boxes (June 18th purchase) 10s. Prepare a statement (to be sent 1st July) up to 20th June, shewing amount due less 2½% discount.

NOTE.—Exercises 58, 59, and 60 (page 219, &c.) may be conveniently worked at different times, e.g.,

(1) Writing up the Day Books, Cash Book, and Journal;
(2) Posting the Ledger;
(3) Trial Balance, Profit and Loss Account, and Balance Sheet.

CHAPTER XXV

PARTNERSHIP ACCOUNTS—AGREEMENT—WITHDRAWALS—SALARIES—INTEREST ON CAPITAL

Whatever can be said as to the necessity for the Books of a single Trader being properly kept applies in a stronger degree to a Partnership Firm. Many of the disputes and quarrels which arise between partners originate from neglect of Accounts. The principal matters requiring attention in Partnership Books, as distinguished from the accounts of a "sole" trader, are—

Capital Account and Withdrawals Account of each Partner;
Interest on Capital;
Partners' Salaries;
Division of Profits or Losses.

At the outset, the Partnership Agreement should be *in writing*, and as concerning Accounts, should clearly state the relative proportions of Capital, the amounts which each partner may "draw," the rate of Interest to be allowed, the proportions in which Profits or Losses are to be divided, and any special arrangement as to the basis upon which the share of a deceased partner is to be ascertained.

The Partnership Agreement usually provides that once a year a Balance Sheet shall be drawn up and be signed by each partner.

The following simple example will shew how Partners' Accounts are kept:—

The firm of Wharton, Phillips & Co. consists of two partners, Geo. Wharton and Edward Phillips, who commence business on 1st Jan., 1902, G. W. bringing £300 and E. P. £200 as capital. They agree that profits and losses shall be divided in the proportion of three-fifths and two-fifths, and that "withdrawals" shall be per annum G. W. £120 and E. P. £80, no interest being charged or allowed. The £500 is paid into the firm's Banking Account on 1st January, entered in the Cash Book, and posted to the two Capital Accounts, and at the end of the year the accounts stand as follows (omitting all the year's transactions, which are dealt with in the books in the ordinary way):—

LEDGER.

Dr. GEORGE WHARTON—CAPITAL ACCOUNT. *Cr.*

19	02		£	s.	d.	19	02		£	s.	d.
Dec.	31	To Withdrawals A/c	120	0	0	Jan.	1	By Cash	300	0	0
	,,	,, Balance down	324	0	0	Dec.	31	,, Profit & Loss A/c, ⅔ths ...	144	0	0
			444	0	0				444	0	0
							,,	,, Balance ...	324	0	0

Dr. GEORGE WHARTON—WITHDRAWALS ACCOUNT. *Cr.*

19	02		£	s.	d.	19	02		£	s.	d.
Mar.	31	To Cash	30	0	0	Dec.	31	By G. W. Capital A/c	120	0	0
June	30	,, ,, ...	30	0	0						
Sep.	30	,, ,, ...	30	0	0						
Dec.	31	,, ,, ...	30	0	0						

Dr. EDWARD PHILLIPS—CAPITAL ACCOUNT. *Cr.*

19	02		£	s.	d.	19	02		£	s.	d.
Dec.	31	To Withdrawals Account ...	80	0	0	Jan.	1	By Cash	200	0	0
	,,	,, Balance down	216	0	0	Dec.	31	,, Profit & Loss A/c., ⅔ths ...	96	0	0
			296	0	0				296	0	0
								,, Balance ...	216	0	0

Dr. EDWARD PHILLIPS—WITHDRAWALS ACCOUNT. *Cr.*

19	02		£	s.	d.	19	02		£	s.	d.
Mch.	31	To Cash	20	0	0	Dec.	31	By E.P. Capital Account ...	80	0	0
June	30	,, ,, ...	20	0	0						
Sep.	30	,, ,, ...	20	0	0						
Dec.	31	,, ,, ...	20	0	0						

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

1902		£	s.	d.	1902		£	s.	d.
Dec. 31	To Wages ...	286	0	0	Dec. 31	By Goods A/c., Gross Profit...	769	0	0
,,	,, Trade Expenses	94	0	0	,,	,, Bank Interest	4	0	0
,,	,, Rent, Rates, &c.	72	0	0					
,,	,, Advertising ...	54	0	0					
,,	,, Discount ...	27	0	0					
,,	,, Balance down	240	0	0					
		773	0	0			773	0	0
Dec. 31	To G. Wharton, ⅗ths	144	0	0	Dec. 31	By Balance, Nett Profit... ...	240	0	0
,,	,, E. Phillips, ⅖ths	96	0	0					

Messrs. WHARTON, PHILLIPS & Co.—BALANCE SHEET 31st December, 1902.

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
To Creditors ...	420	0	0	By Debtors ...	390	0	0
,, Capital :—				,, Stock ...	430	0	0
G. Wharton, £324 0 0				,, Furniture, &c.	60	0	0
E. Phillips, £216 0 0				,, Cash at Bank	80	0	0
	540	0	0				
	960	0	0		960	0	0

Signed 15th January, 1903, { GEO. WHARTON. ED. PHILLIPS.

When interest on capital is to be allowed, it must be debited to the Profit and Loss Account before division of Profits. When the profits are divisible in the same proportion as the capitals of the Partners, then the *nett* result is the same whether Interest is charged or not. If in the above example 5% interest on the original capital had been allowed, the result would be :—

Profit	£240	
Less Partners' Interest	25	
Profit divisible	£215	

and the Partners would be credited :—

G. Wharton :	Interest ...	£15 0 0		
	Profit	129 0 0		
			£144	
E. Phillips :	Interest ...	£10 0 0		
	Profit	86 0 0		
			96	
	Total		£240	as before.

In the case of a firm carrying on a business and desiring to commence new Books, the opening Journal entry should shew the assets and liabilities, and the division of the capital between the partners :—Say that Dalton, Watson & Holmes possess on 1st July, 1902, the following assets : Machinery, £1,750 16s. 8d. ; Office Furniture, £74 6s. 8d. ; Stock-in-Trade, £3,296 12s. 5d. ; Bills Receivable, £350 ; Cash at Bankers, £346 12s. 8d. ; Cash in hand, £17 15s. 4d. ; and Debtors—Reed & Gill, £156 10s. 8d. ; and Speight & Sons, £83 9s. 5d.

Their liabilities are :—Bills Payable, £1,295 18s. 0d. ; Creditors—Midland Machinery Co. Ltd., £580 ; Barlow & Peterson, £425 16s. 8d. ; Hall, Robertson & Co., £290 16s. 3d.

The surplus is to be placed to the credit of the Partners as follows :—Frederick Dalton 2-5ths, John Watson 2-5ths, and Walter Holmes 1-5th.

JOURNAL.

1902					£	s.	d.	£	s.	d.
July	1	Machinery	*Dr.*		1750	16	8			
	,,	Office Furniture	,,		74	6	8			
	,,	Goods Account (Stock)... ...	,,		3296	12	5			
	,,	Bills Receivable...	,,		350	0	0			
	,,	Bank	,,	CB1	346	12	8			
	,,	Cash	,,	CB1	17	15	4			
	,,	Reed & Gill	,,		156	10	8			
	,,	Speight & Sons	,,		83	9	5			
		To Bills Payable	...					1295	18	0
		,, Midland Machinery Co. Ltd.	...					580	0	0
		,, Barlow & Peterson	...					425	16	8
		,, Hall, Robertson & Co. ...	...					290	16	3
		,, Fredk. Dalton. Capital A/c.	$\frac{2}{5}$ths.					1393	9	2
		,, John Watson. ,,	,,					1393	9	2
		,, Walter Holmes. ,,	$\frac{1}{5}$th.					696	14	7
					6076	3	10	6076	3	10

The items of "Bank" and "Cash" are entered here in order that the opening entry may include every asset and liability. From this Journal they will be posted to the Cash Book in the "Bank" and "Office" columns as below :—

	J.	Bank.	Office.
July 1st, To Balance at commencement	1	£346 12 8	£17 15 4

all the other entries being posted to the Ledger in the ordinary way.

The Partnership Agreement provides that each Partner shall receive a salary of £200 per annum, to be credited quarterly; that 5% interest shall be allowed and charged on capital and withdrawals, the nett profit to be divided, two-fifths to F. D. two-fifths to J. W., one-fifth to W. H.

LEDGER.

Dr. **FREDERICK DALTON—CAPITAL ACCOUNT.** *Cr.*

19				£	s.	d.	19			J	£	s.	d.
June	30	To Withdrawals Account ...		176	4	5	July	1	By Sundries ...	1	1393	9	2
	,,	,, Bal. Down..	✓	1656	19	11	19						
							June	30	,, Interest, 1 yr. 5 %		69	13	6
								,,	,, Profit & Loss Account ...		370	1	8
				1833	4	4					1833	4	4
							July	1	By Balance ...	✓	1656	19	11

Dr. **FREDERICK DALTON—WITHDRAWALS ACCOUNT.** *Cr.*

19			£	s.	d.	£	s.	d.	19			£	s.	d.	£	s.	d.
July	8	To Cash ...	3	8	5	70	0	0	Sep.	30	By Salary ...	1	17	5	50	0	0
Sep.	17	,, ,, ...	2	3	1	55	0	0	Dec.	31	,, ,, ...	1	4	10	50	0	0
Oct.	18	,, ,, ...	1	11	9	45	10	0									
Dec.	4	,, ,, ...		15	1	26	8	6	19								
									Mch.	31	,, ,, ...		12	5	50	0	0
19									June	30	,, ,, ...				50	0	0
Feb.	20	,, ,, ...	1	2	8	63	12	8		,,	,, Balance of Interest	6	1	11			
Mch.	10	,, ,, ...		7	6	24	15	0									
May	26	,, ,, ...		8	1	84	16	4		,,	,, Capital A/c				176	4	5
June	30	,, Interest, 5%				6	1	11									
			9	16	7	376	4	5				9	16	7	376	4	5

Dr. **JOHN WATSON—WITHDRAWALS ACCOUNT.** *Cr.*

19			£	s.	d.	£	s.	d.	19			£	s.	d.	£	s.	d.
Sep.	8	To Cash ...	4	0	10	100	0	0	Sep.	30	By Salary ...	1	17	5	50	0	0
Dec.	18	,, ,, ...	2	2	6	80	0	0	Dec.	31	,, ,, ...	1	4	10	50	0	0
19									19								
Feb.	20	,, ,, ...	2	13	5	150	0	0	Mch.	31	,, ,, ...		12	5	50	0	0
June	16	,, ,, ...		1	0	25	0	0	June	30	,, ,, ...				50	0	0
	30	,, Interest, 5%				5	3	1		,,	,, Balance of Interest ...	5	3	1			
										,,	,, Capital A/c				160	3	1
			8	17	9	360	3	1				8	17	0	360	3	1

Dr. **JOHN WATSON—CAPITAL ACCOUNT.** *Cr.*

19			£	s.	d.	19			J	£	s.	d.
June	30	To Withdrawals A/c	160	3	1	July	1	By Sundries ...	1	1393	9	2
	,,	,, Balance down ✓	1673	1	3	19 June	03 30	,, Int., 1 year, 5%		69	13	6
							,,	,, Profit and Loss A/c		370	1	8
			1833	4	4					1833	4	4
						July	1	By Balance ... ✓		1673	1	3

Dr. **WALTER HOLMES—CAPITAL ACCOUNT.** *Cr.*

19			£	s.	d.	19			J	£	s.	d.
June	30	To Withdrawals A/c	166	6	8	July	1	By Sundries ...	1	696	14	7
	,,	,, Balance down ✓	750	5	6	19 June	03 30	,, Int., 1 year, 5%		34	16	9
							,,	,, Profit and Loss A/c		185	0	10
			916	12	2					916	12	2
						July	1	By Balance ...		750	5	6

Dr. **WALTER HOLMES—WITHDRAWALS ACCOUNT.** *Cr.*

190			£	s.	d.	£	s.	d.	190		£	s.	d.	£	s.	d.
July	7	To Cash ...	1	2	0	22	10	0	Sep.	30 By Salary ...	1	17	5	50	0	0
Aug.	13	,, ,, ...	1	10	9	35	0	0	Dec.	31 ,, ,, ...	1	4	10	50	0	0
Sep.	26	,, ,, ...		14	4	18	16	9	190	3						
Nov.	10	,, ,, ...	1	12	6	51	5	4	Mar.	31 ,, ,, ...		12	5	50	0	0
Dec.	30	,, ,, ...	1	11	1	62	10	3	June	30 ,, ,, ...				50	0	0
190	3									,, Balance of						
Feb.	3	,, ,, ...		18	2	45	3	8		Interest	4	8	4			
Apl.	18	,, ,, ...		4	9	24	1	7		,, Capital Ac-						
May	6	,, ,, ...		8	5	55	18	9		count ...				166	6	8
June	22	,, ,, ...		1	0	46	12	0								
	30	,, Interest 5%				4	8	4								
			8	3	0	366	6	8			8	3	0	366	6	8

Dr. **INTEREST ON CAPITAL.** *Cr.*

19			£	s.	d.	19			£	s.	d.
June	30	To F. Dalton, 1 yr. £1,393 9 2 @ 5%	69	13	6	June	30	By F. Dalton, Withdrawals Account ...	6	1	11
	,,	,, J. Watson, 1 yr. £1,393 9 2 @ 5%	69	13	6		,,	,, J. Watson, do.	5	3	1
							,,	,, W. Holmes, do.	4	8	4
	,,	,, W. Holmes, 1 yr. £696 14 7 @ 5% ...	34	16	9		,,	,, Profit and Loss Account ...	158	10	5
			174	3	9				174	3	9

Dr. **PARTNERS' SALARIES.** *Cr.*

19			£	s.	d.	19			£	s.	d.
Sep.	30	To F. Dalton, Qr.'s Salary	50	0	0	June	30	By Profit and Loss Account ...	600	0	0
	,,	,, J. Watson, ,,	50	0	0						
	,,	,, W. Holmes, ,,	50	0	0						
Dec.	31	,, F. Dalton, ,,	50	0	0						
	,,	,, J. Watson, ,,	50	0	0						
	,,	,, W. Holmes, ,,	50	0	0						
19											
Mch.	31	,, F. Dalton, ,,	50	0	0						
	,,	,, J. Watson, ,,	50	0	0						
	,,	,, W. Holmes, ,,	50	0	0						
June	30	,, F. Dalton, ,,	50	0	0						
	,,	,, J. Watson, ,,	50	0	0						
	,,	,, W. Holmes, ,,	50	0	0						

Dr. **PROFIT AND LOSS ACCOUNT.** *Cr.*

1903			£	s.	d.	1903			£	s.	d.
June	30	To Wages ...	1153	12	8	June	30	By Goods Account, Gross Profit ..	5418	11	3
	,,	,, Rent, Rates &c.	426	18	1		,,	,, Bank Interest	14	9	5
	,,	,, Repairs ...	123	9	1						
	,,	,, Bad Debts ...	396	12	9						
	,,	,, Commission	584	8	5						
	,,	,, Trade Expenses	315	9	2						
	,,	,, Discount ...	648	15	11						
	,,	,, Depreciation of Machinery	100	0	0						
	,,	,, Balance down	1683	14	7						
			5433	0	8				5433	0	8
June	30	To Partners' Salaries ...	600	0	0	June	30	By Balance ...	1683	14	7
	,,	,, Partners' Interest ...	158	10	5						
	,,	,, Balance, Nett Profit ...	925	4	2						
June	30	To F. Dalton ⅜ths	370	1	8	June	30	By Balance, Nett Profit ...	925	4	2
	,,	,, J. Watson ,,	370	1	8						
	,,	,, W. Holmes ¼th	185	0	10						

Messrs. DALTON, WATSON & HOLMES.

BALANCE SHEET, 30th JUNE, 1903.

Liabilities.	£ s. d.	£	s.	d.	*Assets.*	£ s. d.	£	s.	d.
To Bills Payable	1000 0 0				By Machinery	1750 16 8			
,, Sundry Creditors	1404 10 5				Less Depreciation ...	100 0 0	1650	16	8
		2404	10	5	By Furniture, &c. ...		74	6	8
					,, Stock		3426	18	11
,, Capital:—					,, Bills Receivable	525 0 0			
F. Dalton	1656 19 11				,, Sundry Debtors ...	584 12 11	1109	12	11
J. Watson	1673 1 3								
W. Holmes ...	750 5 6								
		4080	6	8					
					,, Cash ...	4 9 8			
					,, Bank ...	218 12 3	223	1	11
		6484	17	1			6484	17	1

Signed, 24th July, 1903,
FREDK. DALTON,
JNO. WATSON,
W. HOLMES.

In this example the Partners withdraw cash at irregular intervals, and in unequal proportions, on account of profits and salaries. These "drawings" are debited in one account for each Partner, as shewn in the Ledger, and the salaries are credited quarterly against the same accounts. Interest is stated in the inner columns on each side (calculated from the date of each entry to the 30th June, 1903), the balance of interest shewn therein being debited in the account. All the entries of interest are assumed to be posted from the Journal. Occasionally a Partner's withdrawals consist of "goods" delivered out of the stock. If so, the goods are entered in the Sales Day Book, and either posted direct to the Withdrawals Account, or first to an account in the Sold Ledger and then transferred by a Journal entry at the year's end to the Withdrawals Account. It is better in practice for such goods to be *paid for* by the Partner as though he were a customer of the firm.

As far as possible, no private transactions of Partners should be passed through the firm's books, as such entries often lead to unnecessary complications and misunderstandings.

EXERCISE 50.

Thomas Hunt and James Hill are partners, and their Profit and Loss Account before charging interest for the year ended 31st December, 1902, shews a profit of £1,845.

They are each entitled to interest at the rate of 5% per annum on their capital, and interest is to be charged at the same rate on their Drawings, which were as follows:—

Hunt.—1st March £100, 1st June £180, 1st August £200, 1st November £150.

Hill.—1st April £80, 1st July £100, 1st October £200.

Hunt's Capital 1st January, 1902, was £6,750, Hill's £4,320.

Profits are to be divided thus:—Hunt three-fifths, Hill two-fifths.

Complete the Profit and Loss Account, and shew the Partners' Capital Accounts and Withdrawals Accounts.

EXERCISE 51.

The firm of Wistow & Co. consists of three partners—Wistow, Church, and Overbury.

Wm. Wistow's capital in the business is £6,780; he is entitled to £100 per annum salary and three-sevenths of the nett profits.

Abram Church's capital in the business is £4,960; he is entitled to £150 per annum salary and two-sevenths of the nett profits.

James Overbury's capital in the business is £3,620; he is entitled to £200 per annum salary and two-sevenths of the nett profits.

The Salaries have not been paid, and are to be credited for the year at 31st December, 1902.

The Partners are each entitled to 5% interest on their respective capitals.

Overbury is also entitled to 20% of profits over £1,500, after charging Salaries and Interest.

The Books, before dealing with the above matters, contained these figures:—

Dr.—Stock, Jan. 1st, 1902, £1,565 9s. 6d.; Purchases, £25,619 8s. 3d.; Wages, £9,345 18s. 6d.; Carriage, £802 9s. 6d.; Trade Expenses, £1,206 9s. 9d.

Cr.—Sales, £40,817 8s. 9d.; Stock, Dec. 31st, 1902, £1,403 3s. 3d.

Make Profit and Loss Account and Partners' Capital Accounts at 31st December, 1902.

CHAPTER XXVI

Trading Account—Trial Balance and Balance Sheet

One of the difficulties which beset the path of the Student who may examine a selection of text-books dealing with Book-keeping arises from the different names which are given to the same Book or Account, and the same diversity is often met with in actual work. A prominent example of this is the term "Trading Account," which is used in reference to accounts which are quite different in their real purpose and meaning. We cannot now attempt to reconcile the conflicting definitions of this Account which are to be found, but the Student may now learn what the term may be understood to signify in its general use.

Often the term "Trading Account" is used to describe that which is in other places named "Profit and Loss Account"; elsewhere it is used instead of "Goods Account"; and a third variety is an Account comprising the "Goods Account" and all or part of the Profit and Loss Account.

For Income Tax purposes the Inland Revenue authorities ask a person who wishes to appeal against his assessment to furnish a "Trading Account," which is to shew the amount of his profit and loss.

For practical purposes it is best to use these names in the sense that the words themselves might be supposed to imply, viz., "Trading Account," an account shewing the results of *Trading*; and "Profit and Loss Account," an account shewing the final *Profit* or *Loss*. Dealing with the *Dr.* side first, all expenses incurred in connection with the business, apart from Interest on Loans, Interest on Capital, Partners' Salaries, or Income Tax, should be charged in the Trading Account; the items above excepted should be charged in the Profit and Loss Account. Dealing with the *Cr.* side, all profits arising out of the ordinary business transactions should be credited to the Trading Account, whilst any extraordinary profit, such as a profit on Sale of the business premises, and any Interest earned on Loans or Investments, should be credited to the Profit and Loss Account. The Trading Account is usually divided into two sections, the first

shewing the *gross* profit and the second shewing the *nett Trading* profit. (This expression, of course, is to be distinguished from the nett profit of the Profit and Loss Account.) The divisions of this Trading Account and its practical uses will be dealt with in Part III. (Advanced).

The following is a simple example of a Trading Account and Profit and Loss Account:—

Dr. **TRADING ACCOUNT.** *Cr.*

1902		£	s.	d.	1902		£	s.	d.
Jan. 1	To Stock	326	15	11	Dec. 31	By Sales (twelve months) ...	2181	4	5
Dec. 31	,, Purchases, £1,629 10 5 Less Returns, £96 14 2				,,	,, Stock	289	7	1
		1532	16	3					
,,	,, Gross Profit ...	610	19	4					
		2470	11	6			2470	11	6
Dec. 31	To Wages... ...	128	17	9	Dec. 31	By Gross Profit ...	610	19	4
,,	,, Rent and Rates	69	15	2					
,,	,, Advertising,&c.	52	13	6	,,	,, Discount ...	26	14	3
,,	,, Trade Expenses	87	16	9					
,,	,, Bad Debts ...	15	10	3					
		354	13	5					
,,	,, Profit and Loss Account ...	283	0	2					
		637	13	7			637	13	7

Dr. **PROFIT AND LOSS ACCOUNT.** *Cr.*

1902		£	s.	d.	1902		£	s.	d.
Dec. 31	To Interest on loan	30	0	0	Dec. 31	By Profit per Trading A/c.	283	0	2
,,	,, Capital A/c., Nett Profit ...	253	0	2					

In Part I. (Elementary) only the term "Profit and Loss Account" is employed, for the sake of simplicity. In the following pages it should be understood that the term "Trading Account" is intended to apply to an account prepared in accordance with the foregoing explanation.

The first section of the Account shews a *gross* profit of 28% upon the total Sales.

In some businesses where the trade is divided into two or more distinct departments, it is the practice to use a separate Trading Account for each department, the results being collected in a general Profit and Loss Account.

The Student who has mastered the work of writing up the original Books (Day Books, Cash Book, &c.), posting the Ledger, and drawing out a Trial Balance, will find it good practice to now begin with the Trial Balance and prepare therefrom a Balance Sheet, Trading Account, and Profit and Loss Account. This is a favourite form of Examination question on this subject after the Elementary stage has been disposed of. The following is an example of a Trial Balance and its working out :—

DANIEL GRAYLING. TRIAL BALANCE, 30TH JUNE, 1902.

	£	s.	d.	£	s.	d.
Capital Account				1046	17	4
Machinery	628	10	0			
Horse, Cart, &c.	53	9	6			
Bank	126	8	4			
W. Rylands & Co.	128	19	2			
R. Benson...				96	5	11
Jones & Jowett	36	8	5			
Bills Payable				200	0	0
,, Receivable	226	9	8			
Jas. Stonehouse, Loan				500	0	0
Interest on Loan...	25	0	0			
Stock, 1st July, 1901	485	10	0			
Purchases	1671	8	11			
Sales				3076	18	2
Repairs	56	17	3			
Wages	465	3	9			
Trade Expenses	79	12	5			
Horse Keep	28	17	9			
Bad Debts...	62	3	4			
Stationery and Advertising	96	12	5			
Discount	46	7	2			
Rent and Rates	124	15	0			
Travelling Expenses	132	9	7			
Waring & Sons	263	11	8			
Armitage Bros., ...	181	7	1			
	4920	1	5	4920	1	5

The Stock on 30th June, 1902, is £538 12s. 6d. Prepare Trading Account, Profit and Loss Account, and Balance Sheet at 30th June, 1902 :—

Dr. TRADING ACCOUNT FOR YEAR ENDING 30TH JUNE, 1902. *Cr.*

			£	s.	d.				£	s.	d.
1901 July	1	To Stock	485	10	0	1902 June	30	By Sales	3076	18	2
1902 June	30	,, Purchases ...	1671	8	11			,, ,, Stock	538	12	6
		,, ,, Balance down ...	1458	11	9						
			3615	10	8				3615	10	8
June	30	To Wages	465	3	9	June	30	By Balance, Gross Profit	1458	11	9
		,, ,, Repairs	56	17	3						
		,, ,, Horse Keep ...	28	17	9						
		,, ,, Trade Expenses...	79	12	5						
		,, ,, Bad Debts ...	62	3	4						
		,, ,, Stationery and Advertising ...	96	12	5						
		,, ,, Discount	46	7	2						
		,, ,, Rent and Rates...	124	15	0						
		,, ,, Travelling Expenses	132	9	7						
			1092	18	8						
		,, ,, Profit and Loss A/c	365	13	1						
			1458	11	9				1458	11	9

Dr. PROFIT AND LOSS ACCOUNT FOR YEAR ENDING 30TH JUNE, 1902. *Cr.*

			£	s.	d.				£	s.	d.
1902 June	30	To Interest on Loan ...	25	0	0	1902 June	30	By Trading A/c, Profit ...	365	13	1
		,, ,, Capital A/c, Nett Profit	340	13	1						
			365	13	1				365	13	1

DANIEL GRAYLING. BALANCE SHEET, 30TH JUNE, 1902.

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
To Jas. Stonehouse, Loan	500	0	0	By Machinery	628	10	0
£ s. d.				,, Horse, Cart, &c. ...	53	9	6
,, Bills Payable ... 200 0 0				£ s. d.			
,, R. Benson 96 5 11	296	5	11	,, Bills Receivable .. 226 9 8			
	796	5	11	,, W. Rylands & Co. ... 128 19 2			
,, Capital ...1046 17 4				,, Jones & Jowett ... 36 8 5			
Add Profit ... 340 13 1	1387	10	5	,, Waring & Sons ... 263 11 8			
				,, Armitage Bros. ... 181 7 1	886	16	0
				,, Bank	126	8	4
				,, Stock	538	12	6
	2183	16	4		2183	16	4

Unless it is asked for, it is not necessary to open Ledger Accounts in dealing with a question set in this form. First the Trading Account is drawn up, with the Stock credited (as per memorandum) at 30th June, 1902. It is understood that this will be debited to the Trading Account for the following year, on 1st July, 1902. The Trading Account balance is carried to the Profit and Loss Account, and the nett profit is added to the Capital in the Balance Sheet. When all the items belonging to the Trading and Profit and Loss Accounts have been dealt with, the remaining items (not forgetting the Stock of 30th June, 1902) are placed in the Balance Sheet, so arranging them that the totals of Creditors and Debtors are shewn clearly. The Student should check the Trial Balance with the foregoing "working out," before attempting the exercises.

ROGERS & TAYLOR. TRIAL BALANCE, 30TH SEPTEMBER, 1902.

	£	s.	d.	£	s.	d.
Arthur Rogers, Capital Account				2000	0	0
Henry Taylor, ,, ,,				1500	0	0
Machinery and Plant	1282	10	0			
Stock, April 1st, 1902	2648	9	2			
Bills Receivable	1850	0	0			
,, Payable				945	0	0
Furniture and Fixtures	125	0	0			
Horses, Carts, &c.	142	10	0			
Cash	17	13	6			
Bank				826	9	3
Chambers, Sons & Co.				196	12	7
Marshall & Hudson	92	5	7			
Nussey & Son	73	12	5			
Parkinson Bros.	119	13	8			
Benjamin Brook & Co.				16	5	7
Purchases	4217	2	5			
Discount				50	12	3
Sales				7125	11	9
Commission	155	12	7			
Repairs	76	7	3			
Rent and Rates	320	9	2			
Horsekeep	76	12	4			
Bad Debts	93	10	9			
Wages (Manufacturing)	678	12	3			
Salaries	220	0	0			
Bank Interest	26	7	9			
Interest on Capital	87	10	0			
Income Tax	35	14	8			
Stables & Son	320	17	11			
	12660	11	5	12660	11	5

Prepare Balance Sheet 30th September, 1902, and half-year's Trading Account and Profit and Loss Account. The Stock 30th September, 1902, is £2,157 13s. 5d. Divide profit equally.

In this example, it appears that the Partner's withdrawals, if any, have been charged to the respective Capital Accounts, as no Drawings Accounts are in the Trial Balance; and also that Interest on Capital has been allowed to them. The Wages (Manufacturing) are, of course, part of the cost of the Goods produced, and should therefore be included in the *first* section of the Trading Account.

Dr. TRADING ACCOUNT FOR HALF-YEAR ENDING 30TH SEPT., 1902. *Cr.*

1902		£	s.	d.	1902		£	s.	d.
Apl. 1	To Stock	2648	9	2	Sep. 30	By Sales	7125	11	9
Sep. 30	,, Purchases ...	4217	2	5	,,	,, Stock	2157	13	5
,,	,, Wages	678	12	3					
,,	,, Balance down	1739	1	4					
		9283	5	2			9283	5	2
Sep. 30	To Rent & Rates	320	9	2	Sep. 30	By Balance, gross Profit... ...	1739	1	4
,,	,, Salaries ...	220	0	0					
,,	,, Commission ...	155	12	7	,,	,, Discount ...	50	12	3
,,	,, Repairs ...	76	7	3					
,,	,, Horsekeep ...	76	12	4					
,,	,, Bad Debts ...	93	10	9					
		942	12	1					
,,	,, Profit & Loss Account ...	847	1	6					
		1789	13	7			1789	13	7

Dr. PROFIT AND LOSS ACCOUNT FOR HALF-YEAR ENDING 30TH SEPT., 1902. *Cr.*

1902		£	s.	d.	1902		£	s.	d.
Sep. 30	To Bank Interest ...	26	7	9	Sep. 30	By Trading Account Profit	847	1	6
,,	,, Interest on Capital	87	10	0					
,,	,, Income Tax ...	35	14	8					
,,	,, Balance, Nett Profit:— £ s. d.								
	A. Rogers 348 14 7								
	H. Taylor 348 14 6	697	9	1					
		847	1	6			847	1	6

Messrs. ROGERS & TAYLOR.

BALANCE SHEET, 30TH SEPTEMBER, 1902.

Liabilities.	£ s. d.	£	s.	d.	*Assets.*	£ s. d.	£	s.	d.
To Bills Payable	945 0 0				By Machinery and Plant		1282	10	0
,, Chambers, Sons & Co.	196 12 7				,, Furniture and Fixtures		125	0	0
,, Benj. Brook & Co.	16 5 7	1157	18	2	,, Horses, Carts, &c.		142	10	0
,, Bank		826	9	3	,, Stables & Son	320 17 11			
		1984	7	5	,, Marshall & Hudson	92 5 7			
,, Capital Accounts :—					,, Nussey & Son	73 12 5			
A. Rogers	2348 14 7				,, Parkinson Bros.	119 13 8			
H. Taylor	1848 14 6	4197	9	1	,, Bills Receivable	1850 0 0	2456	9	7
					,, Cash		17	13	6
					,, Stock		2157	13	5
		6181	16	6			6181	16	6

EXERCISE 52.

Draw up (from the following Trial Balance) the Trading and Profit and Loss Accounts and Balance Sheet of Richard Ward. The Stock at 31st December, 1901, was £786 14s. 6d.

TRIAL BALANCE, 31ST DECEMBER, 1901.

	£	s.	d.	£	s.	d.
Richard Ward, Capital Account...				4,074	10	0
Stock, 1st Jan., 1901	685	3	9			
Salaries	200	0	0			
Wages	715	4	10			
Purchases	2,974	6	8			
Trade Expenses	179	4	2			
Advertising	120	14	0			
C. Rhodes, Loan				1,250	0	0
Bad Debts	36	18	6			
Rent, Rates, and Insurance ...	135	9	6			
Coal	65	3	6			
Gas and Water	44	14	9			
Sales				4,908	19	3
Returns	124	8	6			
Bills Receivable	650	0	0			
Bills Payable				180	0	0
Fixtures and Fittings	1,122	10	0			
Rent Received				25	0	0
Repairs	35	6	3			
Sundry Debtors	3,499	13	2			
Sundry Creditors				329	4	7
Cash in Hand	4	9	4			
Bank Balance	118	6	11			
Interest on Loan	62	10	0			
Bank Interest				6	10	0
	£10,774	3	10	£10,774	3	10

EXERCISE 53.

Walker, Trott & Willow are in partnership. Walker is entitled to one-half of the profit, Trott to one-third, and Willow to one-sixth. Their Stock on 31st December, 1901, is worth £1,439 14s. 2d., and each Partner is to be credited with 5% interest on Capital for one year. Make out Trading Account, Profit and Loss Account, and Balance Sheet of the Firm from the following Trial Balance :—

	£	s.	d.	£	s.	d.
A. Walker—Capital				4,265	0	0
,, Drawings, including Interest	400	0	0			
B. Trott —Capital				3,015	0	0
,, Drawings, including Interest	275	0	0			
C. Willow—Capital				1,805	0	0
,, Drawings, including Interest	145	0	0			
Creditors				1,536	3	9
Sales				12,415	14	7
Stock, 1st January, 1901	2,036	14	8			
Debtors	3,967	1	11			
Cash Book Balance...	35	3	9			
Wages and Salaries	562	9	4			
Rent, Rates, and Insurance ...	150	18	5			
Horsekeep	67	9	6			
Carriage	320	1	1			
Repairs	196	5	6			
Business Premises	4,480	0	0			
Office Expenses	135	9	2			
Travelling Expenses	458	7	5			
Purchases	9,120	6	10			
Discount Allowed	339	4	3			
Discount Received				556	8	9
Bad Debts	93	0	0			
Rent Received				9	4	9
Horses, Carts, &c.	140	0	0			
Fixtures and Fittings	680	0	0			
	£23,602	11	10	£23,602	11	10

CHAPTER XXVII

Limited Companies—Capital (Nominal, Subscribed, Called-up, Paid-up)—Shareholders' Accounts

As so great a part of the business of this country is now carried on by Limited Liability Companies, it becomes necessary for the Student of Book-keeping to make himself acquainted at this stage with the principal points of difference between the accounts of a Company and those of a private Trader or Partnership Firm. First, he should understand what is meant by a "Limited Company," and this may be explained in this way:—

A Partnership Firm consists of two or more persons, each being responsible for the payment of *the whole of the debts* of the Firm, without regard to the amount of his capital in the Firm.

A Limited Company consists of seven or more persons, each being responsible for the payment of the *amount which he has agreed to contribute* towards the capital of the Company (i.e., the amount of his *Shares*). A person agreeing to take ten shares of £5 each, having paid to the Company £50, is free from all liability—his liability being described as "limited" to the amount which at any time may be *unpaid* in respect of his shares. The same person taking ten shares of £5 each, and having paid to the Company £3 per share = £30, is liable to pay to the Company's creditors £20 only, and so on.

There are Companies which are "unlimited," but they need not be considered at this point. Another great difference between a "Partnership" and a "Company" is that in a "Partnership" an existing member cannot retire at any time, and a person cannot be brought in as a "new" partner, without the consent of the other members of the firm; but in the case of a Company, partners (shareholders) may, as a rule, retire, and new shareholders may be brought in (by the operation of "transfers of shares"), without asking the consent of the other shareholders.

The Capital of a private Trader, or Firm, is, as already defined, the "excess of assets over liabilities." The Capital of a Limited Company is a very different thing, and it is necessary to examine the following terms :—

Nominal Capital.—When the Company is formed (and registered) the amount of capital which it is authorised to possess is fixed. This is the Nominal Capital, say £100,000, consisting of 20,000 shares of £5 each.

Subscribed Capital.—A person who wishes to become a Shareholder signs a document whereby he agrees to take so many shares. He is therefore called a "Subscriber," and the total amount of the shares which has been agreed to be taken by all persons is the "Subscribed Capital," say 15,000 shares of £5 = £75,000. (This must not be confounded with the actual *payments* for shares.)

Called-up Capital.—It may not be necessary for the Company to have all the *Money*—i.e., £75,000 representing the subscribed shares—*at once*, and therefore the Company "calls" for payment of only such an amount per share as it may be able to use at the time—say £3 per share = £45,000. The Called-up Capital is £45,000, and the Uncalled Capital is £30,000.

Paid-up Capital.—It does not follow that all the shareholders immediately *pay* that which is "called-up." Often there are arrears of "calls," especially in the earlier months of the Company's existence. If, out of the £45,000, £40,000 is actually paid by the members, then the Paid-up Capital is £40,000, and the "Calls in Arrear" are £5,000.

The following Summary may assist the Student to clearly grasp these terms, which are so frequently met with :—

Nominal Capital		£100,000
Subscribed	£75,000	
Unissued	25,000	
Subscribed Capital...		£75,000
Called-up	£45,000	
Uncalled	30,000	
Called-up Capital		£45,000
Paid up	£40,000	
Unpaid	5,000	

The expression "Shares" which has been used simply means equal undivisible portions into which the Capital is divided. When all the Shares are fully paid up, then, if the members wish it, the Shares may be cancelled and the Capital converted into *Stock*. A person holding 100 Shares of £5 each would then be described as holding £500 "Stock." The important matters connected with different classes of Shares, as they affect the Accounts of a Company, will be referred to in Part III. (Advanced). The object at present is to explain to the Student how the Company's Capital Account is constructed, and the entries in the Books shewing transactions with the Shareholder or Partner.

Assuming that "The Redcross Company Ltd." has been formed, with a Nominal Capital of £20,000, consisting of 2,000 Shares of £10 each, Henry Charnwood agrees to take 50 Shares, £2 per Share being payable upon "application." Immediately Charnwood enters into the agreement to take these Shares, he becomes indebted to the Company for £100, and this is the first *transaction*, which is fully recorded in the Journal thus (in practice this would not be the subject of a separate Journal entry, but would be included with other applications—see page 198):—

1902.		£	s.	d.	£	s.	d.
May 1	Henry Charnwood ... *Dr.*	100	0	0			
	To Application Account, for amount due on 50 Shares, @ £2 per Share				100	0	0

Henry Charnwood would pay the £100 on 1st May, and this will be entered in the Company's Cash Book, "May 1. To Henry Charnwood on application, 50 Shares, £100," and posted to an account in a separate Ledger. (Share Ledger: The special form of this will be described in Part III.)

On May 15th the Company agrees to issue these Shares to H. C., and they are therefore "allotted" to him. £5 per Share is now due "on allotment":—

1902.		£	s.	d.	£	s.	d.
May 15	Henry Charnwood ... *Dr.*	250	0	0			
	To Allotment Account, for amount due on 50 Shares, @ £5 per Share				250	0	0

On 18th May H. C. pays the £250, and this is entered in the Company's Cash Book, "May 18. To Henry Charnwood, on allotment, 50 Shares, £250," and posted to his account.

On 1st June the Company "call up" the remaining £3 per Share, and thereupon H. C. becomes indebted for £150, which is journalised :—

1902.			£	s.	d.	£	s.	d.
June 1	Henry Charnwood ...	*Dr.*	150	0	0			
	To Call Account for amount due on 50 Shares, @ £3 per Share					150	0	0

On June 7th H. C. pays £150, which is entered in the Cash Book :—"June 7. To Henry Charnwood, Call 50 Shares, £150," and posted as before.

The Ledger Accounts will now stand :—

Dr. HENRY CHARNWOOD. *Cr.*

1902			J	£	s.	d.	1902				J	£	s.	d.
May 1	To Application 50 Shares			100	0	0	May 1	By Cash ...		...		100	0	0
15	,, Allotment ,,			250	0	0	18	,, ,,	...	...		250	0	0
June 1	,, Call ,,			150	0	0	June 7	,, ,,	...	...		150	0	0
				500	0	0						500	0	0

Dr. APPLICATION ACCOUNT. *Cr.*

1902		J	£	s.	d.
May 1	By H. Charnwood		100	0	0

Dr. ALLOTMENT ACCOUNT. *Cr.*

1902		J	£	s.	d.
May 15	By H. Charnwood		250	0	0

Dr.	CALL ACCOUNT.								*Cr.*
				19 June	02 1	By H. Charnwood	J	£ 150	s. 0	d. 0

Suppose that by 30th June all the 2,000 shares are applied for and allotted and the "Call" made, the whole of the transactions would be dealt with as in the example given, and then the three accounts, "Application," "Allotment," and "Call," will be closed by transfer entries to *one* account, called the

Dr.	SHARE CAPITAL ACCOUNT.				*Cr.*
	19 June	02 30	By Application Account	£ 4000	s. 0	d. 0
		,,	,, Allotment ,,	10000	0	0
		,,	,, Call ,,	6000	0	0
				20000	0	0

It will be observed that H. Charnwood's account shews no balance. It is not customary to shew each Shareholder as having a portion of the Capital standing to his Credit, and the Capital appears now in *one* account only, the Share Capital Account. The Register of Shareholders will contain in future the particulars shewing *to whom* the £20,000 belongs. These "owners" or "shareholders" may be constantly changing, and this Register is outside the ordinary Books of Account.

Where the Shares are payable in full "upon Application," then the applicant can be entered as "Dr. to the Share Capital Account," and no separate accounts for Application, Allotment, and Call are required.

Payments in respect of Shares are usually made direct to the Company's Bankers, who issue Receipts; the Banker sends an "advice" of such items to the Secretary of the Company, who enters them in the Cash Book (Bank Column). When the Shares are fully paid, the Shareholder gives up to the Secretary the Banker's Receipts, and receives in exchange a "Share Certificate."

The following is an example of Journal entry on 30th June, 1902, of ten applications received during that month:—

JOURNAL.

1902				£	s.	d.	£	s.	d.
May	31	Sundry Persons To Application Account for £2 per share	*Dr.*				4000	0	0
			Shares.						
	1	Henry Charnwood ...	50	100	0	0			
	5	Jas. Allen	200	400	0	0			
	,,	Arthur Waite	180	360	0	0			
	,,	W. J. Hughes	300	600	0	0			
	7	Robert Hinchcliffe ...	75	150	0	0			
	9	Alfred S. Fowler	400	800	0	0			
	10	Benj. Thorneycroft ...	15	30	0	0			
	12	Thos. Farrington... ...	300	600	0	0			
	,,	John Wm. Carnaby ...	200	400	0	0			
	,,	Walter Baxendale ...	280	560	0	0			
			2000	4000	0	0			

The Company is, of course, not bound to accept *all* applications, and frequently a person applies for *more* shares than are allotted to him. Usually in such cases the surplus application money goes towards the next payment due from him. If James Allen applied for 200 shares, paying £2 per share, and on May 15th only 150 were allotted to him, his account would stand as follows:—

Dr. JAMES ALLEN. *Cr.*

1902			£	s.	d.	1902			£	s.	d.
May	5	To Application A/c 200 Shares @ £2	400	0	0	May	5	By Cash	400	0	0
	15	,, Allotment A/c 150 Shares @ £5	750	0	0		15	,, Application A/c 50 Shares not allotted ...	100	0	0
June	1	,, Call A/c 150 Shares @ £3	450	0	0		19	,, Cash	650	0	0
						June	3	,, ,, ...	450	0	0
			1600	0	0				1600	0	0

On May 15th (when allotment takes place) Allen is *credited* with the £2 per share on 50 shares over-applied for, and the Application Account is *debited.*

If the Books are not entered up until *after* the allotment takes place, then a shorter plan may be adopted. The above, however, shews clearly all the transactions which have occurred.

EXERCISE 54.

A Limited Company was registered on 1st January, 1902, with a Nominal Capital of £50,000, divided into 50,000 shares of £1 each. The whole of the Share Capital was offered for subscription, 5s. per share being payable on Application, 10s. per share on Allotment, and remainder on 1st March. On 10th January applications, accompanied by 5s. per share, were received from—

Wm. Wilson for	15,000 shares.	Norman Nathan	5,000.
Matthew Mart for	10,000 ,,	Chas. Crowther	2,500.
Leonard Lamb for	8,000 ,,	Rowland Read	1,500.
Benj. Bray for	7,000 ,,	Frederick Firth	1,000.

On 11th January the 50,000 shares were allotted to the applicants.
On 14th January the amount due on allotment is received.
On 1st March notices are sent to shareholders calling up the amount unpaid on their shares.
On 3rd March amounts due on Call are received.

Enter the above transactions in the Journal and Cash Book of the Company.

CHAPTER XXVIII

Wages Books—"Piece" and "Time"—Weekly Rent Book—Monthly Rent Journal—Interest Account

In a business employing a large number of hands, it is very important that the Wages Book should be properly arranged, with a view to ensuring accuracy and facilitating the payment of numerous employees in a short time.

Wages are paid either for "Piece" or for "Time." In the case of Piece-work the employee has a book, card, or ticket, on which the work done and the price is entered weekly by the overlooker or foreman in charge. These particulars should also be copied into a Piece Wages Book for use in the office, and each "hand" is paid on production of his book or ticket. In the case of Wages paid by "time," the Timekeeper records the time worked by each man, and from this record the Wages Book is written up. If overtime is worked, usually an extra "quarter" is added to the actual hours, and in some cases "half" is added—e.g., a man whose regular day is 9 hours, and who works 11 hours, will be calculated as having worked $9 + 2 + \frac{1}{2} = 11\frac{1}{2}$ hours. (Sunday labour is often allowed as "double time.")

The practice of making small advances to employees during the week, which obtains in certain trades, is productive of much worry to the Cashier or Wages Clerk, and should, whenever possible, be discouraged.

The Wages Book can always be more carefully written up if a sufficient interval of time is allowed between the hour up to which the calculations are made and the hour of payment, and in this case the exact total of Wages can be ascertained, and a cheque for that amount be drawn and cashed in readiness for the "pay time."

Piece Wages Books, of course, vary in form according to the nature of the business and the class of work done. The following is an example of Moulders Wages :—

PIECE WAGES BOOK. WEEK ENDING MARCH 22ND, 1902.

17	18	19	20	21	22	Total Made		Price.	£	s.	d.	£	s.	d.
							A. BALLANTYNE, Moulder.							
24						24	No. 16 Oven Burners	1d. each		2	0			
	36	40	44	36		156	,, 178 ,, ,, Loose ...	1½d. ,,		19	6			
48					24	72	,, 179 ,, ,, ...	2d. ,,		12	0	1	13	6
							C. DYSON, Moulder.							
3						3	No. 1 Baths, 5ft. 6in.	3/- each		9	0			
	2	2	2	2	1	9	,, 3 ,, 5ft.	2/6 ,,	1	2	6	1	11	6
							E. FIRTH, Moulder.							
480	600					1080	Ratchet Catches	½d. per doz.		3	0			
40		200				240	Cistern Brackets	½d. each		10	0			
			5	4	3	12	Mant. Fronts, 36in.	1/- ,,		12	0			
			3	3	2	8	,, ,, 34in.	10d. ,,		6	8	1	12	5
												4	17	5

A "Time" Wages Book can generally be ruled so as to provide for a number of weeks on one opening, thus saving the labour of writing the workmen's names afresh each week. The following is a specimen :—

WAGES BOOK.

No.	Name.	Rate	Week ending Jan. 4th, 1902.				Week ending Jan. 11th, 1902.				Week ending Jan. 18th, 1902.				Week ending Jan. 25th, 1902.				Week ending Feb. 1st, 1902.				Week ending Feb. 8th, 1902.				Week ending Feb. 15th, 1902.			
		d.	hrs.	£	s.	d.	hrs.	£	s.	d.	hrs.	£	s.	d.	hrs.	£	s.	d.	hrs.	£	s.	d.	hrs.	£	s.	d.	hrs.	£	s.	d.
1	H. Munro	9	55	2	1	3	56½	2	2	4½	48	1	16	0	56	2	2	0	48½	1	16	4½	56	2	2	0	59½	2	4	7½
2	J. L. Wagstaff	9	43½	1	12	7½	54	2	0	6	61	2	5	9	56	2	2	0	50	1	17	6	50½	1	17	10½	64	2	8	0
3	R. Whitworth, sen. ...	9	54	2	0	6	56	2	2	0	53½	2	0	1½	39½	1	9	7½	49	1	16	9	56	2	2	0	62	2	6	6
4	N. Laverick...	8½	56	1	19	8	56½	2	0	0	57	2	0	4½	52	1	16	10	62	2	3	11	60	2	2	6	59½	2	2	2
5	W. Kitching	8½	58	2	1	1	56	1	19	8	62	2	3	11	49	1	14	8½	50½	1	15	9	49½	1	15	1	56	1	19	8
6	J. Nicholson	8½	61	2	3	2½	49	1	14	8½	51½	1	16	6	48	1	14	0	56	1	19	8	48	1	14	0	55	1	18	11½
7	W. C. Gallagher	8¼	38½	1	6	6	49	1	13	8	48	1	13	0	61½	2	2	3½	49½	1	14	0½	61½	2	2	3½	49½	1	14	0½
8	B. Bastow	8	53	1	15	4	53½	1	15	8	52	1	14	8	57	1	18	0	49½	1	13	0	39	1	6	0	54	1	16	0
9	V. Smith	8	53	1	15	4	47	1	11	4	61½	2	1	0	57	1	18	0	56	1	17	4	56	1	17	4	48½	1	12	4
10	W. Hardisty	8	62	2	1	4	46½	1	11	0	39	1	6	0	58½	1	19	0	56	1	17	4	61½	2	1	0	57	1	18	0
11	J. W. Simpson	8	52	1	14	8	39	1	6	0	38	1	5	4	56	1	17	4	57½	1	18	4	56	1	17	4	56	1	17	4
12	R. L. Fozzard	8	67	2	4	8	62	2	1	4	37½	1	5	0	56½	1	17	8	58	1	18	8	48½	1	12	4	48	1	12	0
13	W. H. Turner	8	48	1	12	0	38½	1	5	8	43	1	8	8	55½	1	17	0	58	1	18	8	60½	2	0	4	56	1	17	4
14	S. Burston	7¾	37½	1	4	2½	57	1	16	10	42	1	7	1½	57	1	16	10	60½	1	19	1	47	1	10	4	60½	1	19	1
15	H. E. Causton	7¾	51	1	12	11	56	1	16	2	40	1	5	10	56	1	16	2	61	1	19	5	56	1	16	2	56	1	16	2
16	S. B. March...	7½	51½	1	12	2	57½	1	15	11	39½	1	4	8	48½	1	10	4	39	1	4	4½	47½	1	9	8	51	1	11	10½
17	J. Lave	6¼	48	1	5	0	41	1	1	4	37		19	3	57	1	9	8	42	1	1	10½	50	1	6	0½	49½	1	5	9½
18	R. Whitworth, jun. ...	6¼	56	1	9	2	40½	1	1	1	39½	1	0	7	59½	1	11	0	56	1	9	2	48	1	5	0	56	1	9	2
				31	11	7½		30	15	3		28	13	9½		32	12	5½		32	1	3		31	17	3½		33	9	0½

Rents.—A firm may own property which is let to tenants, the rents being due weekly, monthly, or quarterly. For weekly rents the following method may be adopted :—

WEEKLY RENT BOOK.

Property.	Tenant.	Per Week.	Arrears June 30th.	Weekly Receipts, 1902.													Accrued due this Quarter.	Total Receipts.	Arrears September 29th.
				July				August				September							
				7	14	21	28	4	11	18	25	1	8	15	22	29			
			£ s. d														£ s. d	£ s. d	£ s. d
5, John St.	H. Lazarus	3/6	10 6	3/6	4/–	4/–	2/–		5/–	7/–	6/–	6/–	6/–	5/6	3/6	3/6	2 5 6	2 16 0	
7, ,,	Mrs. Lyon	3/6		3/6	3/6	3/6	3/6		7/–	3/6	3/6		7/–	3/6	3/6	3/6	2 5 6	2 5 6	
9, ,,	A. Brooksbank ...	4/–			8/–		8/–		8/–	4/–	4/–	4/–	4/–	4/–	4/–	4/–	2 12 0	2 12 0	
11, ,,	R. Cratchit	4/3	1 13	4/3		4/3	*left*	*21st*	*July.*								12 9	8 6	1 5 6
28, Walker's Row	F. Jordan	3/9		3/9	3/9	3/9	3/9	3/9	3/9	3/9	3/9	3/9	3/9	3/9	3/9	3/9	2 8 9	2 8 9	
29, ,,	Jas. Rispin	3/9	7 6	5/–	5/–	5/–	5/–	5/–	5/–	3/9	3/9	3/9	3/9	3/9	3/9	3/9	2 8 9	2 16 3	
30, ,,	A. W. March	4/6		4/6	4/6	4/6	4/6	4/6	4/6	4/6	4/6		9/–	4/6	4/6		2 18 6	2 14 0	4 6
31, ,,	T. Digswell	4/6			9/–	4/6	4/6			13/6	4/6	4/6	4/6	4/6	4/6	4/6	2 18 6	2 18 6	
		31/9	1 19 3	24/6	37/9	29/6	31/3	13/3	33/3	40/–	30/–	22/–	38/–	29/6	27/6	23/–	18 10 3	18 19 6	1 10 0

SUMMARY FOR QUARTER ENDING 29TH SEPTEMBER, 1902.

	£ s. d.	£ s. d.
Arrears at 30th June, 1902...		1 19 3
13 Weeks' Rent @ 31s. 9d. per week ...	20 12 9	
Less No. 11, John Street, empty 10 weeks, @ 4s. 3d.	2 2 6	18 10 3
		£20 9 6
Cash received...	18 19 6	
Arrears irrecoverable (Cratchit)	1 5 6	
,, carried forward to next quarter...	4 6	£20 9 6

In the Cash Book the weekly totals of Receipts (July 7th, £1 4s. 6d. &c.), will be entered and posted to "Rents Receivable" account in the Ledger.

Monthly Rents.—These may be recorded in a manner similar to the Weekly Rents, but it is often more convenient to keep a separate Ledger Account for each tenant, debiting the rent due each month and crediting the cash received, which is entered in separate amounts in the Cash Book. The rents accruing due are recorded in the following manner:—

MONTHLY RENT JOURNAL.

Property.	Tenant.	Led. Fo.	Rnt per Annum	Date Due.	Rent Due. Jan.	Feb.	Mch.	April	May	June	Remarks.
			£								
14 Rose Court	Hy. Clarke...	28	24	1st	2 0 0	2 0 0	2 0 0				Left 28th Feb.
274 Alma Rd.	Alfd. Page...		18	1st	1 10 0	1 10 0	1 10 0	1 10 0	1 10 0	1 10 0	
28 Bury St.	T. Sanders...		30	15th	2 10 0	2 10 0	2 10 0	2 10 0	2 10 0	2 10 0	
5 Market Pl.	W. Roberts		36	15th	3 0 0	3 0 0	3 0 0	3 0 0	3 0 0	3 6 8	£40 from 15th May
6 ,, ,,	J. R. Booth		36	15th	3 0 0	3 0 0	3 0 0	3 0 0	3 0 0	3 0 0	
7 ,, ,,	S. Ambler ...		40	15th	3 6 8	3 6 8	3 6 8	3 6 8	3 6 8	3 6 8	
14 Rose Court	Geo. Lloyd...		24	1st					2 0 0	2 0 0	Entered 1st April
					15 6 8	15 6 8	15 6 8	13 6 8	15 6 8	15 13 4	

The Rents may not all become due on the same day, therefore the column "Due Date" states that Clarke's Rent is due 1st of each month, Roberts' 15th of each month, and so on. The

Journal gives a record of all Rents falling due from 1st January to June. Space should be left for any changes in Tenants—e.g., Clarke leaves on 28th Feb., and his last Rent is due 1st March; No. 14 is empty during March, Page becoming the tenant on 1st April, and his first Rent is due 1st May. Changes in annual Rent are noted in "Remarks" column. The Ledger will contain an account for each Tenant, and also a "Rents Receivable Account," as below :—

28	Dr.		HENRY CLARKE, 14, Rose Court.							Cr.	28
			£	s.	d.					£	s.	d.
Jan.	1	To 1 month's Rent	2	0	0	Jan.	4	By Cash		2	0	0
Feb.	1	,, ,,	2	0	0	Feb.	15	,, ,, ...		2	0	0
Mar.	1	,, ,,	2	0	0	Mar.	3	,, ,, ...		2	0	0

Dr.	RENTS RECEIVABLE ACCOUNT.				Cr.
		1902		£	s.	d.
	Jan.	31	By Sundries ...	15	6	8
	Feb.	28	,, ,, ...	15	6	8
	Mch.	31	,, ,, ...	15	6	8
	Apl.	30	,, ,, ...	13	6	8
	May	31	,, ,, ...	15	6	8
	June	30	,, ,, ...	15	13	4

The balance of "Rents Receivable" Account is to be carried to the Profit and Loss Account when the Books are closed. The question of "apportionment" of Rents, &c., will be dealt with in Part III.

Quarterly Rents can be dealt with in the same manner as "Monthly," and one page will cover a year's transactions.

If the Properties are not very numerous, a few pages of the ordinary Journal can easily be ruled to meet the requirements of the Rent Journal, instead of using a separate book for that purpose.

Interest.—Examples of the use of an inner column (in the Ledger) for Interest figures are given in the Partners' Withdrawals accounts (Page 178). These figures are often written in red ink in order to distinguish them from *postings*. Similar columns are also required in the accounts of a Trader who sells goods for payment due on fixed dates, and whose customer pays round sums on account at various times.

Dr. DESMOND, CURRIE & CO., Bristol. *Cr.*

1902				Due Date.	Days.	Interest.				1902			Days.	Interest.				
Apl.	8	To Goods ...	28	Apl. 22	30	2	7	0	248 16 7	Apl.	12	By Cash ...	79	2	3	3	200	0 0
May	14	,, ,, ...		May 28	34	1	14	0	365 12 7	May	31	,, ,, ...	30	1	4	8	300	0 0
June	9	,, ,, ...		June 23	7		2	3	118 15 0	June	20	,, ,, ...	10		4	1	150	0 0
	30	,, Interest 5%	J						0 11 3		30	,, Balance of Interest 5%				11	3	
												,, ,, Bal. down	f				83	15 5
						4	3	3	733 15 5					4	3	3	733	15 5
une	30	,, Balance ...	f						83 15 5									

Explanation.—The goods April 8th are sold "due" April 22nd. Interest at 5% is charged on this from April 22nd to June 30th (= 69 days) in the Interest column on the Dr. side. This is repeated with each sale. The account is credited with Interest from the dates of payment (e.g., April 12th to June 30th = 79 days) at the same rate on each amount of cash. On June 30th the Interest columns are closed, and the balance of interest due is debited in the "Principal" column. The Interest columns are, of course, only subsidiary ones, and the entry of Interest, £0 11s. 3d., must be Journalised.

CHAPTER XXIX

Bank Ledger—Foreign Currency—Difference in Exchange

Bank Ledger Account.—Interest is closely associated with the customer's account which a Banker keeps, and is usually worked on the system shewn below. By this method the "balance of the account" is clearly shewn when each transaction takes place, it being necessary that the Banker should see at a glance how each customer stands at any moment.

BANKER'S LEDGER.

HENRY EASTMAN & CO., 14, King's Parade, Birmingham.

Date.	Particulars.	*Dr.* Postings.			*Cr.* Postings.				Balance.			Days.	Products.	
													Dr.	*Cr.*
1902		£	s.	d.	£	s.	d.		£	s.	d.			
June 30	Balance ...	527	0	0				*Dr.*	527	0	0	7	3689	
July 7	Warburton	100	0	0				*Dr.*	627	0	0	11	6897	
18	Fear ...	26	12	6				*Dr.*	653	12	6	3	1962	
21	Cash, &c. ...				23	18	0	*Dr.*	614	14	6	30	18,450	
Aug. 20	Cheques ...				750	0	0	*Cr.*	135	5	6	15		2025
Sep. 4	Warburton	100	0	0				*Cr.*	35	5	6	1		35
5	Roberts ...	48	13	3				*Dr.*	13	7	9	12	156	
17	Eagle ...	3	2	7				*Dr.*	16	10	4	14	238	
Oct. 1	Cash, &c. ...				237	19	10	*Cr.*	221	9	6	1		221
2	,, ...				52	0	0	*Cr.*	273	9	6	1		273
3	Tulley ..	18	1	6				*Cr.*	255	8	0	7		1785
10	Brown ..	132	6	3				*Cr.*	123	1	9	7		861
17	Cheques ...				126	13	0	*Cr.*	249	14	9	4		1000
21	Earnshaw ...	316	0	0				*Dr.*	66	5	3	15	990	
Nov. 5	Sedley ...	100	0	0				*Dr.*	166	5	3	26	4316	
Dec. 1	Cash, &c. ...				76	13	0	*Dr.*	89	12	3	27	2430	
28	,, ...				87	0	0	*Dr.*	2	12	3	3	9	
31	Commission	1	1	0				*Dr.*				Bal.		32,937
,,	Interest ..	4	10	3										
,,	Balance ...				8	3	6	*Dr.*						
		1377	7	4	1377	7	4					184	39,137	39,137
	Balance ...	8	3	6				*Dr.*	8	3	6			

Explanation.—Instead of the Dr. and Cr. money columns being placed on opposite sides of the folio, as in an ordinary Ledger Account, they are placed side by side, with only one *entry*

column for both kinds of transaction. On June 30 H. E. & Co. owe the Bank £527, which is carried into the Balance column with the prefix Dr., on July 7 H. E. & Co. owe the Bank £627, also stated in the Balance column, and so on, every time the account is *altered*. After the Balance column is the "Days" column. In this is entered the number of days between each balance—e.g., the balance was £527 from June 30 to July 7 = 7 days: it was £627 from July 7 to July 18 = 11 days, &c. The total of the "Days" column up to the end of December must always be 184 (viz., 31 + 31 + 30 + 31 + 30 + 31). To arrive at the interest on these balances at 5 per cent., the *Pounds* are multiplied by the *Days*, and the "product" carried into the Dr. or Cr. *Product column*, according to the nature of the balance. The products shew a balance at 31st December of 32,937, divided by 7,300 gives the Interest at 5% :—

$$\frac{32{,}937 \times 5}{365 \times 100} = \frac{32{,}937}{7{,}300} = \text{£}4\ 10\ 3$$

$$\left(\text{or } \frac{\text{Principal} \times \text{Days} \times \text{Rate}}{365 \times 100}\right)$$

If the Interest to be allowed on *Cr.* balances is *not* at the same rate as the Dr. charged, then the *two* Product columns are converted separately into Interest, at the respective rates, instead of converting the Balance only.

Foreign Currency.—When an English firm has dealings with a foreign customer, the question arises, How shall the foreign currency be dealt with in the Books? This is always the case when the goods are sold at a price stated in foreign money, and not in sterling. The English firm has to record the transactions in a *double* form, namely, in English money for the purposes of its own accounts, and in foreign money as a record of the position of affairs in relation to the customer. Matters are further complicated by the fact that the rate of exchange, that is the relative value of the English and the Foreign money, is continually changing, according to the state of the Money Market. These changes are only slight, it is true, but still they have to be reckoned with in making up such accounts. The matter will be best understood by reference to the account of Bergmann & Cie, Paris, as follows, who are customers of Walker & Sons, an English firm :—

Dr. BERGMANN & CIE., Rue St. Honorè, Paris. *Cr.*

1902		D.B.	Fcs.		£	s.	d.	1902		C.B.	Fcs.		£	s.	d.
Jan. 10	To Goods ...		1020	60	40	10	0	Jan. 30	By Cheque @ 25.13		3000		119	7	6
21	,, ,, ...		2628	40	104	6	0								
Feb. 4	,, ,, ...		2639	70	104	15	0	Feb. 27	,, ,, 25.14		4000		159	2	2
11	,, ,, ...		1266	30	50	5	0	Mar 30	,, ,, 25.13		600		23	17	6
Mar. 7	,, ,, ...		633	15	25	2	6	Apr. 30	,, ,, 25.14		6000		238	13	3
18	,, ,, ...		131	05	5	4	0	Jun. 10	,, ,, 25.15		5000		198	16	1
29	,, ,, ...		100	80	4	0	0	29	,, ,, 25.14		3839		152	14	0
April 4	,, ,, ...		5172	30	205	5	0		,, 3% Discount 25.20		694	30	27	12	4
18	,, ,, ...		202	00	8	0	4								
23	,, ,, ...		630	70	25	0	7								
30	,, ,, ...		252	50	10	0	5								
May 10	,, ,, ...		4032	80	160	0	8								
23	,, ,, ...		1000		39	13	7								
June 6	,, ,, ...		2526	30	100	5	0								
13	,, ,, ...		386	40	15	6	8								
20	,, ,, ...		510	30	20	5	0								
					917	19	9								
22	To Difference in Exchange ...				2	3	1								
			23,133	30	920	2	10				23,133	30	920	2	10

On January 10th Messrs. Walker sent to Bergmann & Cie. goods charged at 1020.60 francs, and in order to include this in the Sales Day Book, they convert the francs into sterling at the rate of 25.20 francs = £1. There are many such sales, and for the sake of convenience this rate of 25.20 is adopted in *each* case instead of the *actual* rate which may be current at each particular date of sale. Turning to the credit side of the account, on January 30th Walker & Sons receive a cheque (or Bank draft) for 3,000 francs on account. This cheque is handed by Walker and Sons to their bankers, who give them credit for it at the rate of that day, say 25.13 (= £119 7s. 6d.). This is repeated in the case of each remittance, the rates varying each time. On June 29th Bergmann & Cie. remit 3,839 francs, which, with discount (3% on 23,133.30 = 694.30), balances the account (in francs). The sterling columns, however, do not balance each other, the debit being £917 19s. 9d. and the credit £920 2s. 10d., leaving a credit balance of £2 3s. 1d. This balance arises from the *difference* between the rates of exchange charged on the two sides of the account, and is disposed of by the entry "to difference in exchange" (£2 3s. 1d.). If these foreign accounts are numerous these differences should be posted to an Exchange Account, the balance of which will ultimately go to the debit or credit of Profit and Loss Account. If the accounts are few, the matter may be treated as discount.

There would still be a difference in exchange if the goods sold had been converted into sterling at the actual current rate at time of sale, and therefore in practice the adoption of a normal or average rate, as 25.20 in this case, is found to be more satis factory.

The following is a similar example of a customer at Hamburg, the goods being entered in marks at the rate of 20.50 = £1 :—

Dr. FISCHER & CO., Hamburg. *Cr.*

1902		DB	Ms.	£	s.	d.	1902		CB	Ms.	£	s.	d.
Jan. 4	To Goods ...		133 25	6	10	0	Feb. 10	By Cheque (Berlin) 20.45		10,000	488	17	9
18	,, ,, ...		9840 50	480	0	10							
31	,, ,, ...		1260 00	61	9	3	Mh. 20	,, ,, 20.40		12,000	588	4	8
Feb. 17	,, ,, ...		860	41	19	0	Apr. 30	,, ,, 20.42		5000	244	17	2
27	,, ,, ...		10,630	518	10	8	June 1	,, ,, 20.45		10,000	488	17	9
Mch. 8	,, ,, ...		2000	97	11	2	30	,, ,, 20.43		7305	357	11	3
10	,, ,, ...		1035 25	50	10	0	30	,, 1½ Discount		447 45	21	18	0
21	,, ,, ...		1648 20	80	8	0							
Apr. 11	,, ,, ...		9684	472	7	9							
27	,, ,, ...		100	4	17	6							
May 4	,, ,, ...		780 80	38	1	8							
17	,, ,, ...		215 25	10	10	0							
30	,, ,, ...		4800	234	2	11							
Jun. 17	,, ,, ...		600	29	5	4							
19	,, ,, ...		1000 50	48	16	0							
28	,, ,, ...		164 80	8	0	9							
30	To Difference in Exchange ...			7	5	9							
			44,752 45	2190	6	7				44,752 45	2190	6	7

EXERCISE 55.

Prepare in Chapman Bros.' Ledger the Account of Messrs. Busoni et Fils, of Marseilles, from the following particulars:—Chapman Bros. sell goods as follows:—(Rate of exchange 25.20). 1902. Jan. 4, fcs. 399.00, £15 16s. 8d.; Jan. 11, fcs. 722.62, £28 13s. 6d.; Feb. 2, fcs. 199.50, £7 18s. 4d.: Feb. 25, fcs. 787.50, £31 5s.; March 3, fcs. 1445.24, £57 7s.; March 21, fcs. 557.55, £22 2 6d. And Messrs. Busoni make the following remittances:—1902. Jan. 31 (exchange 25.21), fcs. 1000.00), £39 13s. 4d.; Feb. 28 (exchange 25.16), fcs. 900.00, £35 15s. 5d.; March 31 (exchange 25.18), fcs. 2108.60, £83 14s. 10d.; 2½% Discount (same rate of exchange as Sales, viz., 25.20), fcs. 102.81, £4 1s. 7d. to be credited. Difference in exchange at March 31, Dr. 2s. 2d.

EXERCISE 56.

Hirst & Co., Leeds, send goods as below to Lundmann & Co., Stockholm, invoicing in Kroners, which are entered at an average rate of 18.20 to the £.

January 18th, 1902, Kr. 1833.65; Jan. 24th, Kr. 918; Jan. 30th, Kr. 1016; March 7th, Kr. 2849.65; March 28th, Kr. 1938.55; May 17th, Kr. 154.70; May 30th, Kr. 1424.85; June 4th, Kr. 1621.80.

On February 26th Hirst & Co. receive cheque for Kr. 3500, which the Bank negotiate for them at Kr. 18.18; on April 29th they receive cheque for Kr. 4500, which is negotiated at 18.17; and on June 28th they receive cheque Kr. 2034, which is negotiated at 18.18. Lundmann & Co. are allowed Kr. 101.40 for Discount, which is entered at Kr. 18.18.

Make out Lundmann & Co.'s account in Hirst & Co.'s ledger, shewing balance at 1st July, 1902, @ Kr. 18.20 = £.

EXERCISE 57.

Fowler & Sons, Birmingham, send goods as below to Preissler & Co., Neustadt (Germany), invoicing in marks, which are entered at an average rate of 20.50 to the £:—1902, Jan. 18th, Marks 1029.10; Jan. 24th, M. 1044; Jan. 30th, M. 1305; Feb. 7th, M. 213.75; Feb. 18th, M. 860; Feb. 27th, M. 2684; March 18th, M. 1000; March 25th, M. 261.10. On Feb. 28th they receive cheque for M. 3000, which is realised at 20.47; on March 30th, M. 3000 are received and negotiated at 20.48; on April 2nd cheque for M. 993 is received, and sold at 20.46. On the latter date Fowler & Sons allow M. 142.85 for Discount, to be converted at 20.46. Make out Preissler & Co.'s account in Fowler & Son's ledger, shewing balance at April 2nd, 1902, at M. 20.50 = £.

CHAPTER XXX

Retailer's Accounts—Short Method

In the preceding pages the subject of Book-keeping and Accounts has been considered in its general application, and for the most part we have had in mind businesses of such a degree of size and importance as to call for the records of transactions to be kept in a very complete form. The Student's attention may now be turned to the "masses," to the needs of the many smaller traders, retailers, shopkeepers, &c., who have not very much time, and perhaps less inclination, for the study of Book-keeping. These persons are, as a rule, indifferent to the charms of double-entry, and the subtleties of "Journalising," "Discounting Bills," &c., possess no interest for them. Often, however, they know what "Bad Debts" are, and occasionally their creditors know that also, and deficiencies in Book-keeping may cause some inconvenience if the Trader is so unfortunate as to enter the gloomy portals of the Bankruptcy Court.

This Chapter, therefore, will be devoted to the explanation of a very simple and easy method by which the true results of trading may be ascertained with a minimum of labour in account-keeping, and is intended solely for the guidance of traders who, as above remarked, have very little time and opportunity for such work. The method necessarily has its disadvantages, which are obvious to one who understands the more complete system, but it will be found to serve a good purpose if carried out with a little amount of care. It embraces a record of Cash, Customers' Accounts, Sales and Purchases, and Gross and Nett Profit, and a Balance Sheet may easily be drawn

The Books required are:—

Cash Book.
Sales Day Book.
Ledger.

(Of these, the Cash Book and the Sales Day Book should be written up *daily*, the entries being made immediately each transaction takes place. The Ledger can be posted up whenever time permits, but the more frequently the better.)

1 *Dr.* CASH BOOK. *Cr.* 1

1902				Discount. £	s.	d.	Ledger A/cs. £	s.	d.	Cash Sales. £	s.	d.	1902				Goods. £	s.	d.	Ledger A/cs. £	s.	d.	Expenses. £	s.	d.
July	1	To Capital A/c. ...	1				20	0	0				July	1	By Bank ...	6				15	0	0			
	,,	,, Till ...								3	5	6		2	,, Goods ...		2	10	0						
	2	,, ,, ...								2	17	4		,,	,, Advert.								3	6
	3	,, H. Watson			1	0	2	19	0					,,	,, Postage								5	0
	,,	,, Till ...								4	16	3		4	,, W. Hall		3	17	0					
	4	,, ,, ...								1	17	8		,,	,, Carriage								8	
	5	,, ,, ...								5	12	7		,,	,, Stat'n'ry								2	6
	,,	,, Bank ...	6				10	0	0					5	,, Wages...								1	10	0
	,,	,, A. Mason				9	1	18	0					,,	,, Self ...	1				2	0	0			
	,,	,, Week's takings..	3				18	9	4					,,	,, Rawson Bros. ...		10	0	0						
														,,	,, Bank ...	6				12	0	0			
														,,	,, Purchase A/c. ...	4				16	7	0			
														,,	,, Expenses A/c. ...	5				2	1	8			
														,,	,, Balance	✓				5	17	8			
				0	1	9	53	6	4											53	6	4			
	7	,, Balance..	✓				5	17	8																

At the outset, the Trader who wishes to keep accounts in anything like order should strictly adhere to the rule *not* to mix up his private money with the cash of the business: for his household and personal expenses he should pay himself a regular weekly sum, and keep that clear from the cash of the business. Unless he is prepared to do this, he may as well not attempt to keep accounts at all.

A little attention will make clear the use of the above Cash Book. On the Dr. side the "Discount" column needs no remark. The amount of money taken for "Cash Sales" (or Till contents) is entered daily in the "Cash Sales" column, and at the end of the week (Saturday, July 5) this column is ruled off and its total, £18 9s. 4d., is carried into the "Ledger Accounts" column. The "Ledger Accounts" column contains:—(1) The cash in hand at commencement, £20; (2) the amounts received from customers for goods sold on credit, and (3) the weekly total of Cash Sales or "takings"; (4) all other amounts which are to be posted to the Ledger, such as Bank, &c.

On the *Cr.* side all payments for goods bought are entered in the "Goods" column, and all payments for expenses, wages, &c.,

are entered in the "expenses" column. The totals of each of these are carried at the week end into the "Ledger Accounts" column (which is placed in the centre of the three in order to correspond with the similar column on the Dr. side). This column also contains all items which are to be posted to separate accounts in the Ledger, including "Self," "Bank," &c.

In connection with the "Goods' column, it must be explained here that this method includes *no* "Purchases Day Book," and *no* Ledger Accounts are to be kept for persons from whom goods are bought. The Trader carefully examines all invoices and statements received, pays his accounts, and treats all such payments as "Cash Purchases" of goods. This explains the absence of a "Discount" column on the Cr. side of the Cash Book; all items are *nett* payments. Of course, if he can keep a Purchase Day Book so much the better, but we are now reducing the Books to the smallest number possible, and if he exercises care to see that he does not pay *twice* for the same lot, then the personal accounts may be dispensed with. The best way to guard against irregularity and confusion is to pay each month for all purchases of the previous month. In many cases this plan is adopted:— The invoices received are carefully preserved, and after the 31st statements are received from the various firms; these are checked with the invoices (which are then put away), and *all* are paid on the Pay Day. Nothing is left over (e.g., all July purchases are paid in August), no Purchase Day Book or Bought Ledger is kept, and no inconvenience has been caused thereby.

In a business of this kind, probably the Bank transactions are comparatively few. All moneys paid into Bank are entered as payments in the "Ledger Accounts" column in the Cash Book; all cheques drawn are entered "To Bank" in the "Ledger Accounts" column on the Dr. side, and also as payments on the Cr. side in their proper columns.

The Cash Book is added up and balanced at the end of each week, but the addition of the Discount Column may be continued for the whole six months, in order to save posting.

The Sales Day Book is kept in the simple form (as per example page 51) and is added up at the end of each week, the

total being posted to Sales Account as below. No special remarks are here necessary upon this Book.

The Ledger Accounts comprise:—Capital A/c, Bank A/c, Sales A/c, Purchases A/c, Trading A/c, Expenses A/c, and also the various Customers' Accounts, and Accounts of Fixtures, Furniture, or any other trade assets. Consideration of space forbids the insertion of a full set of detailed accounts for six months, but the Student will be able to follow the working of this method by examining the following summarised example:—

Samuel Brandon commences on July 1st, 1902, with Cash £20, Stock £36 10s. 0d., and Debts due from H. Watson £3 and A. Mason £1 18s. 9d., and Fixtures £35. His cash transactions up to July 5th are those shewn in the specimen Cash Book, page 213, and his Ledger Accounts stand as follows on 27th Dec., 1902 (end of week):—

1 — *Dr.* — SAMUEL BRANDON—CAPITAL ACCOUNT. — *Cr.* — 1

19	02			£	s.	d.	19	02			£	s.	d.
July	5	To Cash	1	2	0	0	July	1	By Cash	1	20	0	0
	12	,, ,, (drawings						,,	,, H. Watson ...	,,	3	0	0
to		posted weekly)		50	0	0		,,	,, A. Mason ...	,,	1	18	9
Dec.	27							,,	,, Fixtures fo.	2	35	0	0
	,,	,, Balance down	✓	108	9	9		,,	,, Stock ,,	7	36	10	0
							Dec.	27	,, Nett Profit, Trading A/c ...	7	64	1	0
				160	9	9					160	9	9
								,,	,, Balance .		108	9	9

FIXTURES AND FURNITURE ACCOUNT. — 2

19	02			£	s.	d.	19	02			£	s.	d.
July	1	To S. B. Capital A/c fo.	1	35	0	0	Oct.	15	By Cash, Old Wheels sold ..			5	0
Sep.	11	,, Cash. Weighing Machine ...		7	10	0	Dec.	27	,, Trading A/c depreciation fo.	7	2	0	0
								,,	,, Balance down	✓	40	5	0
				42	10	0					42	10	0
Dec.	27	To Balance ...	✓	40	5	0							

Cr. SALES SUMMARY. *Cr.* SALES SUMMARY.

			Day Book.			Cash Sales.			Week's Total.		
1902			£	s.	d.	£	s.	d.	£	s.	d.
July	5	By Sundries	4	19	6	18	9	4	23	8	10
	12		5	12	8	19	17	3	25	9	11
	19		4	3	9	15	14	8	19	18	5
	26		3	17	8	16	5	1	20	2	9
Aug.	2		6	18	2	18	10	5	25	8	7
	9		5	15	6	11	13	1	17	8	7
	16		4	18	9	20	14	11	25	13	8
	23		3	12	2	14	12	9	18	4	11
	30		5	7	8	17	16	5	23	4	1
Sep.	6		4	18	1	15	16	7	20	14	8
	13		4	10	9	18	10	3	23	1	0
	20		5	3	6	19	2	4	24	5	10
	27		5	12	8	15	14	2	21	6	10
		Forward	65	10	10	222	17	3	288	8	1

			Day Book.			Cash Sales.			Week's Total.		
1902			£	s.	d.	£	s.	d.	£	s.	d.
		Forward	65	10	10	222	17	3	288	8	1
Oct.	4	By Sundries	4	17	1	16	12	3	21	9	4
	11		5	19	6	15	19	7	21	19	1
	18		4	12	8	17	18	4	22	11	0
	25		4	13	11	16	12	9	21	6	8
Nov.	1		5	2	9	17	16	10	22	19	7
	8		5	7	6	17	4	3	22	11	9
	15		4	13	4	18	19	8	23	13	0
	22		5	11	2	19	6	4	24	17	6
	29		4	10	3	18	8	6	22	18	9
Dec.	6		4	17	5	16	14	5	21	11	10
	13		5	14	1	17	12	3	23	6	4
	20		9	8	6	24	16	8	34	5	2
	27		3	1	10	12	8	2	15	10	0
		To Trading A/c. fo. 7	134	0	10	453	7	3	587	8	1

4 *Dr.* PURCHASES ACCOUNT. *Cr.* 4

1902				£	s.	d.	1902			fo.	£	s.	d.
July	5	To Cash	1	16	7	0	Dec.	27	By Trading A/c ...	7	441	16	6
Dec.	27	,, ,, (posted weekly)		410	9	6							
		,, ,, Accounts owing	✓	15	0	0							
				441	16	6							
							Dec.	27	By Ac/s owing ...	✓	15	0	0

5 *Dr.* EXPENSES ACCOUNT. *Cr.* 5

1902				£	s.	d.	1902			fo.	£	s.	d.
July	5	To Cash	1	2	1	8	Dec.	27	By Trading A/c ...	7	64	11	8
Dec.	27	,, ,, (posted weekly)	,,	56	17	3							
		,, ,, Accounts owing	✓	5	12	9							
				64	11	8							
							Dec.	27	By Ac/s owing ...	✓	5	12	9

6 — *Dr.* — BANK ACCOUNT. — *Cr.* — 6

19	02			£	s.	d.	19	02			£	s.	d.
July	1	To Cash	1	15	0	0	July	5	By Cash	1	10	0	0
to	5	,, ,, ...	,,	12	0	0	to		,, ,, (posted				
Dec.	27	,, ,, (posted separately)		286	9	8	Dec.	27	separately)		274	12	9
									,, ,, Balance down	✓	28	16	11
				313	9	8					313	9	8
Dec.	27	To Balance ...	✓	28	16	11							

7 — *Dr.* — TRADING ACCOUNT. — *Cr.* — 7

19	02			£	s.	d.	19	02			£	s.	d.
July	1	To Stock (Capital Account) fo.	1	36	10	0	Dec.	27	By Sales ... fo.	3	587	8	1
Dec.	27	,, Purchases ...		441	16	6		,,	,, Stock		24	16	7
	,,	,, Balance down	✓	133	18	2							
				612	4	8					612	4	8
Dec.	27	To Expenses fo.	5	64	11	8	Dec.	27	By Balance, Gross Profit ...	✓	133	18	2
	,,	,, Fixtures Depreciation fo.	2	2	0	0							
	,,	,, Discount C.B.		3	5	6							
	,,	,, Nett Profit, to Capital A/c fo.	1	64	1	0							
				133	18	2					133	18	2

BALANCE SHEET 27TH DECEMBER, 1902.

Liabilities.		£	s.	d.	*Assets.*	£	s.	d.
To Creditors:					By Fixtures and Furniture	40	5	0
Goods ...	£15 0 0				,, Stock	24	16	7
Expenses ...	5 12 9	20	12	9	,, Debtors (Customers) ...	26	6	9
					,, Bank	28	16	11
,, Capital		108	9	9	,, Cash	8	17	3
		129	2	6		129	2	6

The Sales Account, or Sales Summary, shews clearly how the "turnover" is progressing week by week, both for Credit Sales (Day Book) and Cash Sales. At the end of the half-year the

Trader must examine his Invoices and Statements, and prepare therefrom a correct list of all liabilities, both for Goods and Expenses. These amounts, £15 and £5 12s. 9d., are treated as shewn in the two Ledger Accounts, being carried forward as liabilities and will be extinguished by the cash payments which will be made in January, 1903. The "Debtors" £26 6s. 9d. are the balances of various customers' Ledger accounts, which are extracted in the ordinary way.

If it is thought necessary, the "Expenses" Account can easily be dissected, by reference to the Cash Book entries, into "Wages," "Rent, Rates, &c.," "Repairs," and any other heads which may be desired.

EXERCISE 58.

Record the following transactions of Adam Dixon, Timber Merchant, by means of Journal, two Day Books, Cash Book, Petty Cash Book, and Ledger. Journalise the drawing or accepting of Bills. Bank transactions are marked B. Prepare Profit and Loss Account and Balance Sheet, at 29th June, 1901.

1901.

Jan. 1 Assets: Freehold Works, £7,500; Machinery and Plant, £2,630; Stock of Timber, £3,496; Due from T. Rayner & Co. £369 16s. 3d.; Bill Receivable, Thomson Bros., due Feb. 4th, £300; Cash at Bank, £1,487 11s. 3d.; Cash in Hand, £26 19s. 5d.; Horses and Carts, £236; Loan to Oscar Friedheim, £500 at 5 per cent.
Liabilities: Bills Payable, Wilson & Co., due Feb. 20th, £1,500; Due to Barker Brothers, £1,289 16s. 3d.; Executors of Robert Wood, Mortgage on Freehold £3,000 at 4 per cent.

			£	s.	d.	
Jan.	1	Advanced to Petty Cash	10	0	0	
,,	3	Paid Barker Bros. on Account	500	0	0	B
,,	5	Sold to James & Son, Goods	486	19	1	
,,	7	Bought of Wilson & Co., Goods	786	14	11	
,,	7	Sold Old Cart for Cash	1	0	0	
,,	7	Sold to Thomas Carr, Goods	346	2	9	
,,	31	Petty Cash Payments for month:—Stamps £2; Advertising, £6; Repairs, £1	9	0	0	
Feb.	4	Paid to Bank, Thomson's Bill, due 4th	300	0	0	B
,,	5	James & Son send three months' acceptance, £486; Discount, 19s. 1d.				
,,	5	Paid Carriage	14	16	3	
,,	20	Retired Wilson's Bill due this day	1500	0	0	B
,,	28	Accepted Wilson's Draft, four months (Discount, 14s. 11d.)	786	0	0	
Mar.	28	Thomas Rayner & Co. become bankrupt ...				
,,	30	Adam Dixon withdraws	200	0	0	B
April	2	Paid Rates and Taxes	186	19	3	B
,,	10	Paid Fire Insurance	30	0	0	B
,,	10	Goods bought of Barker Bros.	116	5	9	
May	6	James's Bill paid into Bank (due 8th)				B
,,	8	James's Bill returned dishonoured, with 5s. expenses				B
June	14	Received 1st and final Dividend 7s. 6d. in £ re Rayner				B
,,	29	Paid Wood's Exors. Half Year's Interest Less Income tax at 1s.				B
,,	,,	Received Cash for Sundry Sales (six months) ...	148	16	3	
,,	,,	Advanced to Petty Cash	35	0	0	
,,	,,	Petty Cash Payments (five months) Stamps £11 15s.; Cleaning, £17 5s.; Repairs, £3 10s....	32	10	0	
,,	,,	General Trade Expenses, paid (six months) ...	187	15	3	B
,,	,,	Sales to Sundry Customers ,, ...	14650	19	11	
,,	,,	Cash Received from Sundry Customers... ...	12915	14	3	B
,,	,,	Discount allowed to ,, ,, ...	642	19	1	

		£	s.	d.	
June 29	Bought Goods from Sundry Persons	12340	16	1	
,, ,,	Cheques paid to ,, ,, ...	10203	4	7	B
,, ,,	Discount allowed by ,, ,, ...	539	2	11	
,, ,,	Wages paid during Half Year	765	4	7	B
,, ,,	Salaries ,, ,, ,, ...	325	0	0	B
,, ,,	Interest allowed by Bankers	12	16	9	
,, ,,	Commission charged by Bankers	18	10	0	
,, ,,	Charge Interest on Capital 5 per cent. per annum				
,, ,,	Write off Depreciation on Machinery	130	0	0	
,, ,,	,, ,, ,, Horses and Carts ...	40	0	0	
,, ,,	Received from James & Son the amount due with £2 Interest				B
,, ,,	Paid for Horsekeep (six months)...	48	16	3	
,, ,,	Charge Friedheim, Half Year's Interest (no tax)				
,, ,,	Stock on Hand	4120	0	0	
,, ,,	Allow Joseph Simpson, the Manager, a commission of 10 per cent. upon Nett Profit, after charging Interest				

EXERCISE 59.

Write up the Journal, Sold and Bought Day Books, Returns Books, and Cash Book entries of the following Transactions. Post the Ledger, prepare Trial Balance June 30th, 1899, and give Profit and Loss Account and Balance Sheet. The Receipts and Payments are through the Bank, except the Petty Expenses. You need not open separate Ledger Accounts for Wages, Rent, Salaries, Travelling or Petty Expenses, and Discount.

Divide the Profit as follows: W. Metcalfe ⅔rds, H. Jamieson ⅓rd.

Messrs. METCALFE AND JAMIESON, WHOLESALE CLOTHING MANUFACTURERS.

1899.

Jan. 2 Assets: Cash £26 17s. 6d.; Balance at Provincial Bank Ltd. £1,460 13s. 9d.; Harrison & Co., Lowestoft, owe £79 18s. 1d.; Gledhill & Frazer, Aberdeen, owe £67 12s. 2d.; Two Bills receivable in hand:—(Frost & Son, due Feb. 4th, £120; Gibson and Gaunt, due April 4th, £80); Engine and Boiler, £960; Machinery and Utensils, £625; Stock, £668 14s. 3d.

Liabilities: To Northern Woollen Co. Ltd., Huddersfield, £762 15s. 1d.; to Bullen Bros., Hawick, £246 17s. 3d.; Two Bills Payable (Doggett & Sons, due March 4th, £465; Joseph Ekins, due March 24th, £500).

Capital: Walter Metcalfe, £1,409 8s. 11d.; Henry Jamieson, £704 14s. 6d.

		£	s.	d.
Jan 2	Paid for New Sewing Machines purchased	60	0	0
,, 14	Bought of Doggett & Sons, Dewsbury, 30 pieces Meltons	346	18	2
,, ,,	Paid Northern Woollen Co. Ltd., £743, Discount...	19	15	1
,, 17	Sold Harrison & Co., 100 doz. Juvenile Sailor Suits, No. 004, at 72s. doz.	360	0	0

			£	s.	d
Jan.	20	Harrison & Co. return 1 doz. Suits (wrong size) ...	3	12	0
,,	28	Returned to Northern Woollen Co. Ltd., 30 yards Serge (badly dyed) at 4s.	6	0	0
Feb.	4	Paid into Bank, Frost's Bill	120	0	0
,,	11	Bought of Northern Woollen Co. Ltd., 25 pieces Serge	322	16	4
,,	,,	Harrison & Co. pay £79. Allowed Discount ...		18	1
,,	18	Sold Joseph Brampton, Burnley, 60 doz. Imperial Trousers, at 96s. doz.	288	0	0
,,	25	Paid Bullen Bros., £234. Discount	12	17	3
Mar.	2	Provincial Bank pays Bill (Doggett)	465	0	0
,,	16	Sold Thorp & Sutcliffe, Cheltenham, 50 doz. "Royal" Overcoats, 120s. doz.	300	0	0
		and 100 doz. "Admiral" Suits, 180s. doz. ...	900	0	0
,,	20	Gave Doggett & Sons three months' Bill	346	0	0
,,	,,	Doggett & Sons allow discount		18	2
,,	21	Bought of Bullen Bros., 10 pieces Prints	78	15	2
		and 20 ,, Cheviots... ...	296	17	1
,,	23	Provincial Bank pays Bill (Ekins)	500	0	0
,,	24	Thorp & Sutcliffe return 1 Overcoat (stained) ...		10	0
April	4	Paid into Bank, Gibson & Gaunt's Bill	80	0	0
,,	,,	W. Metcalfe pays into Firm's Banking Account, additional Capital	600	0	0
,,	,,	H. Jamieson ditto ditto ...	300	0	0
,,	7	Bill returned by Bank dishonoured, with expenses 3s. 6d. ... ... total	80	3	6
,,	29	Gledhill & Frazer remit cheque £67, Discount ...		12	2
May	4	Joseph Brampton sends three months' Bill	288	0	0
,,	12	Bought of Smith & Smith, London, Trimmings, &c.	73	14	5
,,	24	Sold Gledhill & Frazer, two gross All Wool "Highlanders." 75s. a dozen	90	0	0
June	12	Bought of Henry Chambers, Bradford, ten pieces Worsted	231	11	9
,,	20	Thorp & Sutcliffe send Cheque £49 10s. 0d. Discount		10	0
,,	,,	Sold Cambrian Stores Ltd., Swansea, 100 dozen "Harlech" suits, 90s.	450	0	0
,,	24	Received from Cambrian Stores, Ltd., Cheque £427 10s. 0d., Discount	22	10	0
,,	28	Returned to Henry Chambers one piece Worsted (off shade)	22	15	0
,,	30	During the six months the following payments have been made:—Rent of Warehouse, £125; Wages, £596 13s. 11d.; Travelling Expenses, £84 13s. 8d.; Salaries, £208 13s. 11d.; Petty Expenses, £22 14s. 11d.			
,,	,,	Depreciation upon machinery, 7½ per cent. per annum...	25	13	9
,,	,,	Depreciation upon engine and boiler, 10 per cent. per annum	48	0	0
,,	,,	Write off Gibson & Gaunt's account £80 3s. 6d. as bad.			
,,	,,	Value of Stock on hand, £1,088 13s. 8d.			

EXERCISE 60.

Record the following Transactions, by means of Journal, two Day Books, Cash Book, and Ledger. The Receipts and Payments (except Petty Cash Payments) are through the Bank. Divide Nett Profit in proportion to each Partner's Capital. Shew Profit and Loss Account and Balance Sheet, 31st March, 1900.

Messrs. MURRAY & Co., WAREHOUSEMEN.

1900.

Jan. 1 Liabilities: City Bank Ltd., £1,469 17s. 3d.; John Murray, Loan, £200; S. Matthews, £164 11s. 3d.; two Bills Payable:—Jones Bros., due February 3rd, £120; Proctor & Co., due March 3rd, £180.

Assets: Bryde & Son, £136 15s. 0d.; two Bills Receivable:—Monteith Bros., due January 4th, £55 17s. 6d.; H. Speight, due February 3rd, £69 10s. 0d. Fixtures and Furniture, £137 14s. 0d.; Petty Cash, 14s. 11d.; Stock, £3,329 12s. 1d.

Capital: Robert Murray, £957 9s. 0d.; Frederick Wade, £638 6s. 0d.

Jan. 3 Paid to Bank, Monteith's Bill, £55 17s. 6d.

,, 5 Bryde & Son accept three months' Bill, £100, and pay Cash, £36; Discount, 15s.

,, 6 Sold Goods to S. Matthews, £43 19s. 2d.

,, 8 Cheque drawn for Petty Cash, £3.

,, 10 Sold Goods to H. Langton, £76 14s. 11d. and £143 19s. 6d.

,, 11 Bought of Jones Bros., Goods, £49 3s. 9d.

,, 12 Bought of Mathers & Co., Goods, £54 1s. 1d.

,, 13 Paid Fire Insurance, £3 16s. 0d.

,, 16 Sold Goods to Monteith Bros., £98 1s. 11d., and received three months' Bill.

,, 31 Paid Salaries, £24 10s. 0d., and Petty Cash Payments, 17s. 6d.

Feb. 2 Speight's Bill, £69 10s. 0d., handed to Bank.

,, 3 Bought Goods of S. Matthews, £37 10s. 11d.

,, 3 Retired Bill, due this day, £120.

,, 3 Sold Goods to H. Speight, £24 19s. 6d.

,, 5 Sold Goods to Bryde & Son, £76 10s. 2d.

,, 6 Bank notify that Speight's Bill, £69 10s. 0d., is dishonoured, with 3s. expenses.

,, 19 Paid Mathers & Co. £53 10s. 0d.; Discount, 11s. 1d.

,, 20 Bought Goods of Jones Bros., £86 1s. 11d.

,, 22 Sold Goods to Monteith Bros., £193 2s. 11d., and received Bill, £86 10s. 9d.

,, 24 Bought Goods of Walker & Sons, £49 17s. 3d.

,, 28 Paid Salaries, £19 5s. 0d., and Petty Cash Payments, 15s. 4d.

,, 28 Paid Rates, £12 5s. 6d.

Mar. 3 Retired Bill, due this day, £180.

,, 5 Bought Goods of S. Matthews, £56 9s. 9d.

,, 14 Accepted Jones Bros.' Bill, three months, £135: Discount, 5s. 8d.

,, 20 Received first and final Dividend on Speight's Debt, 10s. in the £, £47 6s. 3d.

,, 21 Bought Goods of Jones Bros., £24 8s. 1d.

Mar. 22 Sold Goods to Bryde & Son, £201 9s. 6d.
,, 24 Gave S. Matthews Bryde & Sons' Acceptance, £100, due April 8th.
,, 26 Paid Walker & Sons £47 10s. 0d. ; Discount, £2 7s. 3d.
,, 31 Paid Salaries, £21 15s. 0d. ; Petty Cash Payments, 14s. 5d.
,, ,, Paid John Murray three months' Interest, £2 10s. 0d.
,, ,, Paid Rent, £25.
,, ,, Bank charge Interest £21 15s. 9d. and Commission £1.
,, ,, Depreciation of Fixtures, £3 14s. 0d.
,, ,, Stock on Hand, £3,079 18s. 7d.

QUESTIONS

FROM THE

VOLUNTARY EXAMINATIONS OF THE COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

(a) Record the following transactions of Thomas Craven, Tobacco Manufacturer, by means of Journal, two Day Books, Cash Book, and Ledger (journalising the drawing or accepting of Bills).

Prepare Trading Account, Profit and Loss Account, and Balance Sheet, at June 30th, 1902.

1902.

Jan. 1. Assets:—Leasehold Premises, £1,800; Machinery, Engine and Boiler, £2,760; Stock of Leaf Tobacco, £5,195 9s. 4d.; Cash at London City and Midland Bank, £762 14s. 11d.; Cash in hand, £86 17s. 2d.; Bills Receivable, £429 10s. 0d.; due from Lambert & Smith, £146 15s. 0d.; due from Cavendish & Co., £126 19s. 3d.

Liabilities:—Loan from Thomas Craven, £2,000 at 4%; Due to Wilson & Grey, £1,124 18s. 2d.; Bills Payable, £428 16s. 0d.;

		£	s.	d.
,, 3.	Drawn from Bank (for Wages to be paid the following day)	150	0	0
,, 4.	Wages paid	143	17	9
,, 7.	Bought of Wilson & Grey, 16 cwts. 2 qrs. 10 lbs. Borneo Leaf, at 11d. per lb.; 12 cwts. 1 qr. 23 lbs. West Indian Leaf, at 10d. per lb.; add charges and Insurance, £4 7s. 8d.	147	13	4
,, 12.	Paid Inland Revenue, Duty .. ..(Bank)	686	10	0
,, 17.	Sold to Lambert & Smith, 150 lbs. Royal Mixture, at 6s. 6d.; 20,000 Aromatic Cigarettes at 10s. 8d. per 1,000; 80 lbs. Five Flakes at 7s.; Cases charged for, 10s. 6d. ..	87	18	10
,, 18.	Paid Wilson & Grey (Bank), £1,272 10s., Discount	0	1	6
,, 18.	Received Cavendish & Co.'s Bill, due April 21st, £126, Discount	0	19	3
,, 19.	Bought of Sharp Bros. & Co., Advertising Posters	126	18	0
,, 24.	Northern Engine Co. Ltd., charge for Repairing Machinery	29	16	2
	Sold to Cavendish & Co., Goods	16	15	4
	Bought of John Barnes & Co., Leaf	264	1	8
	Received from Lambert & Smith (Bank), £143, Discount	3	15	0

			£	s.	d.
Jan.	30.	Bought of Dale & Son, Leaf	261	9	2
,,	31.	Paid for Advertisements	23	6	0
,,	31.	Paid for Repairs	3	12	8
,,	31.	Paid for Rates	64	10	0
,,	31.	Bought of Wilson & Grey, Leaf	98	5	10
Feb.	4.	Bill receivable now due, paid into Bank ..	200	0	0
,,	15.	Accepted Bill drawn by Dale & Son, £191, Discount	0	9	2
,,	20.	Paid Northern Engine Co. Ltd., £29 10s., Discount	0	6	2
,,	27.	Received from Lambert & Smith (Bank), £83, Discount	4	18	10
,,	27.	Paid Sharp Bros. & Co. (Bank), £123 10s., Discount	3	8	0
Mar.	1.	Received for old Boiler sold, £30; loss on this Sale	70	0	0
,,	4.	Bill payable, due this day, £200, paid per Bank			
,,	4.	Bill receivable now due, paid into Bank ..	229	10	0
,,	27.	Paid for Patent Cutting Machine bought ..	15	0	0
Apl.	18.	Bill payable, due this day, £191, paid per Bank			
,,	20.	Bill receivable now due, paid into Bank ..	126	0	0
,,	21.	Cavendish & Co.'s Bill returned by Bank dishonoured (3s. expenses charged)	126	3	0
May	4.	Bill payable, due this day, paid per Bank ..	228	16	0
Jan.	10 to June 27.	Drawn from Bank for Wages, &c. (25 weeks)	3,045	0	0
,,	11 to June 28.	Wages paid (25 weeks)	3347	7	0
,,	23 to June 27.	Paid Inland Revenue, Duty (Bank)	24,213	12	8
,,	to June.	Paid Salaries, Travelling and Office Expenses	846	15	4
Feb.	to June.	Goods sold to Sundry Debtors	42,603	10	3
,,	to June.	Received from Sundry Debtors, cash, £1,930 8s. 3d.; Bank, £36,192 8s. 11d., Discount	1,296	1	5
,,	to June.	Bought of Sundry Creditors—Leaf, £3,252 3s. 8d.; Materials for Manufacture, £960; Advertising, £1,782 12s. 3d.			
March	to June.	Accepted Bills drawn by Sundry Creditors	2,480	0	0
April	to June.	Bills payable, matured and paid per Bank	2,320	0	0
Feb.	to June.	Paid to Sundry Creditors, cash, £642 9s. 8d.; Bank, £2,602 16s. 3d.; Discount ..	169	3	8
June	30.	Bank charged for Interest and Commission..	76	19	11
,,	30.	Withdrawn by T. Craven .. ..(Bank)	649	0	0
,,	30.	Depreciation on Machinery, Engine and Boiler, £82 12s. 6d.; on lease, £100.			
,,	30.	Cavendish & Co.'s debt to be written off as bad.			
,,	30.	Stock on hand—Leaf and Tobacco, £2,398 13s. 2d.			

(*b*) Record the following transactions by means of Journal, Day and Cash Books, and Ledger. Prepare Trading Account and Balance Sheet, 30th September, 1903.

INGHAM, MANN & Co., PRINTERS.

1903.

July 1. Walter Ingham and Alfred Mann enter into Partnership; Ingham introduces £500 cash, which is paid on this date to the firm's credit at Bank. Mann borrows on his own account from Richard Johnson, £300 at 5%, and pays this to the firm's credit at Bank.
" 1. Bought of Marriett Bros., Electric Dynamo, £150; and Gas Engine, £90.
" 1. Bought of Machinery Trust, Ltd., Printing Machine, £350, and gave three months' Bill.
" 4. Paid cheque to Wolff & Sons for removing and erecting Plant, £25.
" 4. Bought of Sir Charles Reid & Co., Type, £100.
" 4. Bought of Royal Paper Co. Ltd., Paper, £145 16s. 9d.
" 4. Bought of Pearson & Son, Ink, £32 15s.
" 4. Paid Wages, £3 10s.
" 4. Paid for Cleaning Premises, £5 10s. 6d.
" 10. Printing charged to Mann Bros., £28 16s.
" 16. Printing charged to J. W. Loftus, £9 13s. 5d.
" 17. Printing charged to Mann Bros., £85.
" 20. Two Months' Bill drawn on Mann Bros., £113 (Dis. allowed 16s.)
" 21. Mann's Bill discounted at Bank, Discount, £1.
" 21. Type returned to Sir Charles Reid & Co., £10.
" 22. Paid Pearson & Son cheque, £32 10s., Discount 5s.
" 26. Paid Cash for Repairing Gas Engine, £5.
" 26. Paid Telephone Rent, by cheque, £12.
" 26. Cheque drawn Sir Charles Reid & Co., £90.
" 31. Cash Sales for Month (Paper, &c.), £9 16s. 8d.
Aug. 1. Paid Wages (4 weeks), £43 8s. 7d. Salaries, £7 10s.
" 6. Sold Gas Engine to J. W. Loftus for £70.
" 10. Bought for Cheque Electric Motor, £85. Corporation charge £2 for attaching to main.
" 11. Purchased Handcart for cash, £3 10s.
" 11. Drew Cheque Marriett Bros., £227 10s., Discount £5.
" 11. Charge Marriett Bros. £7 10s. as agreed for defects in Gas Engine.
" 15. Received from T. W. Loftus, £50.
" 29. Paid Wages (4 weeks), £78 13s. 8d. Salaries, £12.
" 31. Cash Sales for Month (Paper, &c.), £11 14s. 9d.
Sep. 1. Paid Insurance, £15, by Cheque.
" 3. Bought of Royal Paper Co. Ltd., Goods, £135 12s. 7d.
" 16. Paid Royal Paper Co. Ltd., Cheque, £143. Discount, £2 16s. 9d.
" 25. Mann's Bill returned dishonoured, expenses 2s. 6d.
" 26. Mann Bros. pay £80—Balance of their debt to be charged to Alfred Mann's account.
" 27. Paid Wages (4 weeks), £68 12s. 3d. Salaries, £9 13s. 6d.
" 28. Paid (for A. Mann) quarter's Interest due to Richd. Johnson.

Sep. 30.	Quarter's Printing done for the Advertising Co., £600.				
,, 30.	Cheques drawn during quarter for Office Cash, £150.				
,, 30.	Gas Account received from Corporation, £18.				
,, 30.	Note of Charges for Electricity received from Corporation, £8.				
,, 30.	Cash Sales for Month (Paper, &c.)	£15	6	4	
,, 30.	Cash Sales Handcart	3	0	0	
					£18 6 4

Found that 10s. extra discount refunded by Pearson & Sons had been included in Cash Sales, July 31st.

Charge Depreciation on Machinery (omitting motor) at 10% per annum, Type, 12½% per annum.

Prepaid, Telephone, £9; Insurance, £10.

Owing, Rates, £3; Rent, £30; Wages, £5.

Stock of Paper, Ink, &c., £58. Work partly done and not charged for valued at £72.

Divide Profit or loss equally between the partners.

(*c*) An Ironfounder has on 1st January, 1902, 45 tons of Moulding Boxes, which he values at £8 10s. per ton. In 1902 four tons are broken up and credited as scrap metal at 45s. per ton. Nine tons of new boxes are made, costing £6 15s. per ton, and at 31st December, 1902, he values the boxes on hand at £8 per ton. In 1903 similar transactions occur, viz.:—Two tons five cwts. are broken up at 43s. per ton, 12 tons 10 cwts. new boxes are made costing £6 5s. per ton, and at 31st December, 1903, the boxes on hand are valued at £7 13s. per ton.

Prepare account showing the Loss each year, and the value on hand.

(*d*) Wm. Ritchie and John Grey are partners in a grain and flour business. They each have the same amount of capital in the business. Wm. Ritchie is entitled to £240 per annum salary. They divide Profit and Loss equally.

The position at 1st January, 1904, is as follows:—

Assets.—Freehold Building and Warehouse Furniture, £1,850; Horses and Carts, £230; Stock on hand—Grain and Flour, £8,004 2s. 4d. Bill Receivable, accepted by Hy. Firth, dated 5th October, 1903, three months, £206 13s. 4d.

Liabilities.—City Bank overdraft, £1,509 6s. 10d.; Colonial Wheat Co., £3,407 10s.; Frederick Harrison 5% Loan on Mortgage of Freehold Building, £1,000; Bill payable in favour of Colonial Wheat Co., dated 16th December, 1903, two months, £1,546 15s.

You are required to open the books in accordance with the above information, to record the following transactions for the quarter ending 31st March, 1904, in the usual books, to take out Trial Balance, to close the books, and show Balance Sheet at 31st March, 1904:—

1904.

Jan. 1. Drew Cheque for Office Cash, £50.

,, 4. Sold to Hy. Firth 500 Sacks of Flour, at 21s.

,, 7. Sent Hy. Firth's acceptance dated 5th October, 1903, to City Bank (who credit same to firm's account).

,, 8. Sold to Roller Mill Co. Ltd., 2,000 quarters Wheat at 38s.

Jan. 9. City Bank returns Hy. Firth's acceptance "dishonoured," with a memo. saying that they have debited the firm's account with the amount of the Bill and also 2s. 6d., charges for noting.

,, 15. Received two Cheques of £3,000 and £752 10s. from Roller Mill Co. Ltd., for their account, less 1¼% discount, £47 10s., forwarded the £3,000 Cheque to Colonial Wheat Co. in payment on account, and paid the £752 10s. Cheque to Bank.

,, 21. Sent Credit Note to Hy. Firth, for 500 Sacks returned at 4d. per sack.

,, 28. Received Invoice from Canadian Produce Co. for 50 tons Seed at £3 15s., purchased from them.

,, 31. Paid Wages and Expenses, £32 15s. 4d.

,, 31. Cash Sales for month, £32 11s. 9d.

Feb. 1. Sold to Roller Mill Co. Ltd., 2,000 quarters Wheat at 39s.

,, 8. Sent Credit Note to Roller Mill Co. Ltd., for 1,000 Sacks returned at 3d.

,, 12. Received Cheque from Hy. Firth on account, £600, paid to Bank.

,, 17. Drew Cheque for Office Cash, £30.

,, 19. Bank paid Bill dated December 16th, 1903, £1,546 15s.

,, 20. Wm. Ritchie withdrew £50 in Cash.

,, 20. John Grey withdrew £50 by Cheque.

,, 24. Sold old Horse for £5 cash.

,, 24. Bought Horse for £40, paid by Cheque.

,, 29. Paid Wages and Expenses, £26 1s. 6d.

,, 29. Cash Sales for month, £69 1s. 3d.

,, 29. Paid Cheque to Colonial Wheat Co., £400, Discount £7 10s.

Mar. 1. Purchased from Colonial Wheat Co., 75 tons Bran at £4, 3,000 quarters Barley at 24s.

,, 6. Paid John Vulcan £13 11s. 8d. by Cash for Repairs to Carts

,, 10. Received £50 Cash from Hy. Firth.

,, 10. Paid £25 to Bank.

,, 20. Received from Roller Mill Co. Ltd., Bankers' Draft, payable in 7 days, for £3,838 18s. 2d.; allowed Discount 1¼%, £48 11s. 10d.

,, 21. Paid for Hay and Straw for Stable in Cash, £10 11s. 3d.

,, 22. Gave Canadian Produce Co.'s three months' Bill for £100, and Cheque, £85; Discount, £2 10s.

,, 24. Purchased Safe for Office for £25 cash.

,, 26. Sold to Roller Mill Co. Ltd., 2,000 quarters Barley at 27s. per quarter, and received from them two months' Bill for £2,700.

,, 29. Bankers' Draft, £3,838 18s. 2d., handed to City Bank.

,, 31. Paid Wages and Expenses, £50 14s. 10d.

,, 31. Cash Sales for month, £25 9s. 8d.

,, 31. Wm. Ritchie drew his Salary for quarter by Cheque.

,, 31. Memorandum of Oats and Bran given out of Stock to Stables for past three months shows:—Oats, 12 quarters at 24s., Bran, 1 ton at £4.

Mar. 31. Stock on hand, £2,116 8s. 7d.
„ 31. Horses and Carts re-valued at £245.
„ 31. Balance of Hy. Firth's account is irrecoverable, write off.
„ 31. Interest on Mortgage owing from 1st January last.

(*e*) At 31st December, 1903, a set of Books show a difference in balancing of £10 4s. 8d. (the credits exceeding the debits). This difference is placed in the Balance Sheet as a Suspense Account. In 1904 the following errors are discovered in the books for 1903 :—

August Sales Day Book overadded £10.
April Discount 2s. 6d. credited to J. Smith in Sales Ledger is not in Cash Book.
May Jones Account in Sales Ledger is credited 3s. 6d. as "Bad Debt." No entry in Bad Debt Account.
Dec. 31 Debtor Balance, Hall & Co. extracted £3 1s. 2d., should be £3 2s. 1d.
Credit Balance, Brown & Son, 2s. 3d., not extracted.

How should these errors be corrected ? To what extent do they affect the profits for 1903 ?

(*f*) Describe the system of Book-keeping most suitable to one of the following businesses :—

(a) *Manufacturer,* who pays for his materials by Bill at end of each month, pays for all items of the nature of expenses by cheque weekly ; occasionally hands over to his creditor a customer's acceptance.

or (b) *Retailer,* his sales are almost entirely for cash ; he pays all his accounts at end of following month ; all cash goes through Bank ; he wishes to ascertain in one set of Books the gross results of his trading, separating the goods into three departments.

(*g*) Thomas Taylor's Balance Sheet, 31st Dec., 1904 :—

Liabilities.	£	*s.*	*d.*
Bank	300	6	11
The Fenton Co. Ltd.	95	11	6
Capital	1844	13	1
	£2240	11	6

Assets.	£	*s.*	*d.*
Freehold Property ..	1000	0	0
Machinery and Office Furniture	550	0	0
Horses and Carts ..	101	12	6
Cash	25	7	3
Petty Cash	10	0	0
Law Bros.	160	10	0
Bill Receivable— (T. Jenkins) ..	50	0	0
Stock, Goods	336	11	9
„ Horsekeep ..	6	10	0
	£2240	11	6

Open the necessary accounts and record the transactions for Janua using the following books:—Sales Day Book, Purchase Day Bo (with analysis columns), Returns Books, Cash Book, Journal, Priv Ledger, Impersonal Ledger, Sales Ledger, and Bought Ledger.

After completing the accounts, the Wages Book and Rent Book m be written up in the forms provided.

1905.

Jan. 2. Sold Goods to Law Bros., £65 11s. 3d.

„ 4. Paid the Fenton Co. Ltd., by Cheque in settlement Account, £90 16s.

„ 5. Received Invoice for Oats and Straw from the Forage Suppl Co., £12 19s.

„ 6. Drew Cheque, £6 5s. 10d., for Wages, and paid same, a follows:—John Ashton, 53 hrs. at 8d., £1 15s. 4d.; Geo. Barrett, 37½ hrs. at 7¾d., £1 4s. 2d.; Saml. Denton, 62 hrs. at 8d., £2 1s. 4d.; Josh. Firth, 48 hrs. at 6¼d., £1 5s.

„ 6. Received weekly rents 15s. 3d., as follows:—Jas. Fisher, 1, Romney Avenue, 4s. (gave week's notice); Mrs. Moore, 3, Romney Avenue, 3s. 9d.; Fred Lawson, 5, Romney Avenue, 7s. 6d. (3s. 9d. arrears).

„ 8. Received Invoice for Materials from the Fenton Co. Ltd. £38 17s. 9d.

„ 9. Paid T. Jenkins' Acceptance to Bank for collection, £50.

„ 10. Received Carriage Account from N.E.R. Co., £13 5s. 4d.

„ 11. Sold Goods to Law Bros., £59 4s. 6d.

„ 12. Bank return Jenkins' Bill dishonoured with Memo. that they have debited Bank Account with amount of same, and noting charges 2s. 6d.

„ 13. Received letter from Law Bros. saying that part of Goods invoiced to them on 11th inst. at £5 10s. have not come to hand, having been lost in transit.

„ 13. Sent in Claim against N.E.R. Co. for Goods lost in transit, £5 10s.

„ 13. Paid Wages, £6 10s. 7d., as follows:—John Ashton, 55 hrs. at 8d., £1 16s. 8d.; Geo. Barrett, 41½ hrs. at 7¾d., £1 6s. 10d.; Saml. Denton, 60 hrs. at 8d., £2; Josh. Firth, 52 hrs. at 6¼d., £1 7s. 1d.

„ 13. Received weekly rents, 7s. 9d., as follows:—Jas. Fisher, 4s.; Mrs. Moore, 3s. 9d.

„ 15. Received cash 3d. from party using telephone for out of town call.

Took into partnership Frank Thompson, who paid to firm's Bank £1,544 13s. 1d., and brought into the business Machinery value £300, profits or losses from Jan. 1st to be divided equally, no interest to be allowed on capital.

16. Sold Goods to Law Bros. to be invoiced as Mar. 1st, £60.
17. Settled Claim, dated 13th inst., against N.E.R. Co. at £5, paid them cash, £8 5s. 4d.
17. Sent Credit Note to Law Bros. for goods lost in transit, as per their letter of the 12th inst., £5 10s.
18. Let house lately occupied by J. Fisher to Ed. Dunn at 4s. 3d. per week, first week's rent due 27th inst.
19. Received Cheque from Law Bros. for 6703.20 francs in settlement of account due at this date.
19. Paid Law Bros.' Cheque to Bank, who credit it at current rate of exchange, 25.20 fcs. = £.
29. Drew Cheque, £6 5s. 7d., for Wages, and paid same as follows:—John Ashton, 52 hrs. at 8¼d., £1 15s. 9d.; Geo. Barrett, 52 hrs. at 7¾d., £1 13s. 7d.; Josh. Firth, 56 hrs. at 6¼d., £1 9s. 2d.; Chas. Oldham, 50 hrs. at 6½d., £1 7s. 1d.
20. Received weekly rents, 11s. 3d., as follows:—Mrs. Moore, 3s. 9d.; Fred Lawson, 7s. 6d. (3s. 9d. arrears).
22. Cash Sale, £44 16s. 6d.
23. Paid to Bank, £30.
25. Received Invoice from the Fenton Co. Ltd., for Materials, £135 9s. 9d.; Repairs to Machinery, £26 11s. 3d.; Typewriter for Office, £).
26. Received 5s. Cheque Book from Bank (charged to Account).
27. Paid Wages, £6 13s. 4d., as follows:—John Ashton, 55 hrs. at 8¼d., £1 17s. 10d.; Geo. Barrett, 55 hrs. at 7¾d., £1 15s. 6d.; Josh. Firth, 59 hrs. at 6¼d., £1 10s. 9d.; Chas. Oldham, 54 hrs. at 6½d., £1 9s. 3d.
27. Received weekly rents, 11s. 9d., as follows:—Ed. Dunn, 4s. 3d.; Mrs. Moore, 3s. 9d.; Fred Lawson, 3s. 9d.
29. Received Credit Note from the Fenton Co. Ltd., for overcharge on Invoice dated 25th inst. for Materials, £6 3s. 2d.; Repairs to Machinery, £1 6s. 8d.
30. Received Bankruptcy Notice *re* Jenkins, no assets, write off debt as bad.
30. Paid Cheque to Forage Supply Co., £12 6s., discount 13s.
30. Received Invoice from Forage Supply Co. for Hay, £11 12s. 6d.
31. Withdrawn by Partners:—Thomas Taylor, £10, by cheque; Frank Thompson, £10 in cash.
31. Paid to Petty Cash for payments during month:—Office Expenses, £6 2s. 3d.; Carriage, £2 9s. 4d.; Horsekeep, £1 8s. 1d.
31. Paid Property Tax by cheque, £2.
31. Took Stocks as follows:—Goods, £477 17s. 7d.; Horsekeep, £10 10s.; Horses and Carts, £95.

Close the books at 31st Jan. Show Trial Balance, Profit and Loss Account, Balance Sheet.

(*h*) What checks do you consider advisable

(1) To guard against the risk of goods being sent away to a customer without being recorded in the Sales Book;

(2) To avoid error in the Weekly Wages List of a large business?

(*i*) *X* is in partnership with *Y* as merchants. *X* owns privately £10,000 2½% Consols, and has £5,000 lying on deposit with the Urban Bank at 3%. To enable his firm to pay promptly for goods and to take full discount, *X* deposits the Consols with the Bank of England and obtains a loan thereon of £7,500 at 3% per annum. He lends this money, together with the deposit drawn out of the Urban Bank to his firm for six months upon the following terms:—*X* shall receive 2% per annum more than he received on his investment (nominal), and he shall receive two-thirds of any surplus accruing to the firm by discounting after payment of interest. During the six months the firm are able to take discount twice on the whole sum borrowed, viz., once at 3¾% and once at 2½%.

Prepare the Accounts showing how much *X* will receive by this arrangement. Income tax to be ignored.

(*j*) In Messrs. Flower & Co.'s Bad Debt Ledger at 31st March, 1905, there were the following debit balances:—R. Holmes, £27 6s. 9d.; W. Fellowes, 19s. 6d.; H. Wilkinson, £3 9s. 5d., all in the hands of a Trade Protection Society for collection. On 1st April Messrs. Flower and Co. received the following quarterly statement from this Society, together with cheque, £26 19s. 3d.:—

	Payments.			*Receipts.*		
	£	*s.*	*d.*	£	*s.*	*d.*
R. Holmes (County Court)		10	0	27	16	9
W. Fellowes ,, ...		2	0		19	0
H. Wilkinson ,, ...		5	0			
W. Hopton				1	0	0
3 Debt Fees		3	0			
4 Enquiry Fees		4	0			
Subscription	1	1	0			
Receipts, Postage, &c.		2	6			
Cheque herewith	26	19	3			
	£29	6	9	£29	6	9

W. Hopton's Account showed no balance in Messrs. Flower & Co.'s Ledger, the balance having been written off to Bad Debt Account at 31st December, 1904.

What entries would you make in Messrs. Flower & Co.'s books?

(*k*) HIRST & YOUNG.

You are provided with paper ruled for the following books :—

Journal,	
Sales Day Book,	totals to be made and posted monthly.
Returns Inwards Book,	do.
Purchase Day Book,	do.
Returns Outwards Book,	do.
Cash Book,	to be balanced monthly ; Bank Balance to be kept in Private Ledger and totals posted from Cash Book monthly. Care should be taken to make Cash Book entries in date order.
Private Ledger,	
Impersonal Ledger,	
Sales Ledger,	the accounts should be ruled off whenever
Bought Ledger,	a settlement takes place. Care should be taken in posting to leave enough space at the end of each month for the settlement, and to post the returns opposite the items from which they will be deducted at the settlement.

Balances, 1st Jan., 1906.

	£	*s.*	*d.*
F. Hirst, Capital Account	934	10	0
W. Young, do.	758	15	0
Machinery and Plant Account	1,194	10	0
Horses, Carts, and Harness Account	85	10	0
Commercial Bank Overdraft	287	9	11
Trading Account, Stock 1st Jan., 1906	692	10	11
Sales Ledger Dr. Balances :—			
Sykes, Ltd.	170	18	11
Worth & Sons	95	11	5
Bought Ledger Cr. Balances :—			
Walsh Bros.	97	15	8
Worth & Sons	95	10	8
Bills Payable Account, Walsh Bros.' Bill due 24th February	65	0	0

You are required to open the books in accordance with the above Balances, to record the transactions for the three months from the information given below, and to close the books at 31st March, showing Profit and Loss Account and Balance Sheet.

The Duplicate Sales Invoice Book shows the following Sales :—

Jan. 3. Worth & Sons, £165 9s. 2d.
„ 26. Sykes, Ltd., £281 12s. 1d.
Feb. 5. Worth & Sons, £111 9s. 8d.
„ 21. Sykes, Ltd., £165 14s. 3d.
Mar 8. Worth & Sons, £171 13s. 5d.
„ 27. Sykes, Ltd., £207 18s. 8d.

The Credit Notes sent were as follows :—

Jan. 5. Worth & Sons, o/c. £5 11s. 3d.
„ 28. Sykes, Ltd., rets., £14 9s. 6d.

The Purchases were :—

Jan. 12. Worth & Sons, goods, £32 9s. 4d.
„ 21. General Supply Co. Ltd., Machine, £55; Hay and Corn for Horse, £15 0s. 3d.
„ 31. North Eastern Railway Co., carriage, £13 12s. 7d.
Feb. 13. Walsh Bros., goods, £189 11s. 2d.; Cart, £15 10s.
„ 19. General Supply Co. Ltd., Coal, £28 9s. 10d.; Horse, £30.
„ 23. Worth & Sons, goods, £312 9s. 8d.
Mar. 5. General Supply Co. Ltd., repairs, £18 9s. 1d.; goods, £33 2s. 3d.
„ 23. Worth & Sons, goods, £156 9s. 6d.

Credit Notes were received as follows :—

Jan. 14. Worth & Sons, goods, £10 6s. 8d.
„ 22. General Supply Co. Ltd., for Old Machine taken as part payment for new Machine invoiced 21st inst., £15.
Mar. 24. Worth & Sons, overcharge on goods, £13 11s. 1d.

The Counterfoil Receipt Book gives the following particulars :—

Jan. 18. Received Cheque from Worth & Sons, £2 8s. 6d., in settlement of accounts to 1st January (Sales Ledger Account subject to 2½% discount, Bought Ledger Account subject to 5% discount).
„ 31. Received Cheque from Sykes, Ltd., £220 8s. 11d., and Cash, £200, in settlement of balance, 1st January (less 2½%) and January Account (less 5%).
Feb. 18. Received Cash from Worth & Sons, £134 17s. 5d., in settlement of January accounts (terms as before).
„ 28. Received Cheque from Sykes, Ltd., £157 8s. 6d., for February Account (less 5%).
Mar. 14. Received Cash from Wm. Thompson, £1 15s., in settlement of an old balance which was written off to Bad Debt Account in 1905.
„ 21. Received Cash, 1d., from Gas Office, being error in calculating discount off Gas Account before drawing cheque for same.
„ 27. Received Cash from Sykes & Co., £100, on Account.

The Bank Paying-in Book shows the following payments to Bank :—

Jan. 18, £2 8s. 6d.; Jan. 31st, £370 8s. 11d.; Feb. 28th, £157 8s. 6d.

The Cheques drawn were :—

Jan. 3. Selves for Office Cash, £20.
Feb. 2. Walsh Bros., £92 17s. 11d., in settlement to 1st January (less 5%).
„ 24. Note :—Walsh Bros.' Bill due this day paid by the Bank.
„ 26. N.E. Railway Co., £13 12s. 7d.
Mar. 18. Worth & Sons, £188 3s. 3d., in settlement of Feb. accounts (terms as before).
„ 21. City Treasurer, Gas Account, £10 15s. 6d.

The Cash payments were :—

Jan. 10. F. Hirst, withdrawal, £10.
„ 31. Wages, £44 13s. 6d.
Feb. 19. General Supply Co. Ltd., £110 13s. 4d. (Jan. and Feb. Accounts, less 2½%).
„ 28. Wages, £35 3s. 6d.
Mar. 28. Rent, £25.
„ 31. Wages, £39 11s. 4d.

W. Young had two loads of coal sent to his house from the firm on 28th February ; these are to be charged to him at £1 5s. per load, and he is also to be charged with the wages of one of the employees of the firm for 13 days at 5s. per day.

	£	s.	d.
On March 31st the Stock of Goods on hand is valued at	585	11	9
„ „ Hay and Corn „ „	5	0	0
The value of the Horses, Carts, and Harness is	120	0	0

The Partners should each be credited with interest on their respective capitals at January 1st at 5% per annum and also with Salary.

F. Hirst at the rate of £240 per annum.
W. Young at the rate of £180 per annum.

The profit or loss to be divided, F. Hirst, two-thirds, W. Young, one-third.

CHAPTER XXXI

Limited Company—Classes of Shares—Sale of Business to Company—Vendor's Account—Journal, Ledger, and Cash Book

The meaning of the Capital of a Limited Company has been explained in Part II., and Shares have been defined as "the equal portions into which the Capital is divided." The simplest plan is for the total Capital to be divided into Shares of *one class* only, but a Company may, if its regulations permit, divide its Capital into shares of two or more classes, with different rights and privileges attaching to each class. Generally, two classes are used—Preference Shares and Ordinary Shares. Preference Shares carry greater security for the money invested than do the Ordinary Shares, but the amount of profit (dividend) to which they are entitled is limited. The precise conditions under which the Preference Shares are issued are contained in the Company's regulations; usually they carry the right to be repaid in full, *before* the Ordinary Shares, in the event of the Company being wound up. If so, they are called *Preferential* as regards Capital. They are also usually entitled to receive out of the profits of any year an additional dividend to make up for any deficiency in previous years. Suppose that the Capital consists of £60,000 6% Preference Shares and £40,000 Ordinary Shares, and that the first year the Profits are £5,600, divided as follows:—

6% on £60,000	£3,600	Preference.
5% on £40,000	2,000	Ordinary.
	£5,600	

In the following year the Profits are £3,000, so that the Preference Shares take only a 5% dividend—£3,000, and the Ordinary Shares receive nothing. In the third year the Profits are £6,800; the Preference dividend of 6% absorbs £3,600, but if these shares are *Cumulative Preference Shares* they are entitled also to 1% more, to make up for the deficit in the second year, so that they will now be entitled to receive out of the Profits for the third year £4,200, or 7%.

Non-Cumulative Preference Shares are only entitled to receive each year's Dividend out of the Profits for each year treated separately, and taking no account of any deficit in previous years. Preference Shares subject to this condition are very seldom issued now.

As a general rule, Preference Shares are entitled to receive their Fixed Dividend and to be paid off at the rate of 20s. in the £ out of the assets of the Company when realised. After the claims of the Preference Shares have been satisfied, the surplus, both of Capital and Profit, belongs to the Ordinary Shares.

Deferred Shares are just the opposite of Preference Shares: they are entitled to Dividend *after* the other classes of Share Capital have received theirs. Not often are they met with in Trading Companies, but they are sometimes created upon the reconstruction of a Company which has been in difficulties.

There are other descriptions of Shares to be met with, such as Vendors' Shares, Founders' Shares, &c. The special rights of these depend entirely upon the Company's regulations contained in its Memorandum and Articles of Association, these being settled by the original members at the time of the formation of the Company. By far the most important and most frequently employed classes are the Preference and Ordinary.

Sale of Business to a Limited Company.—A Company may be formed either for the purpose of commencing an entirely new business or for purchase of an existing business, or for the amalgamation and combination of two or more existing businesses of a similar character. In the case of purchase of a business the terms, of course, depend upon the agreement which is made with the owner of the business (the Vendor), and the price to be given may be payable either in cash or shares, or both. The following example will explain the treatment of such transactions in the Accounts of the Company:—

Alfred Thornbury's assets and liabilities on 30th June, 1902, are:—

Assets:—Land and Buildings, £3,000; Machinery, £1,700; Stock, £246 13s. 9d.; Debts due—Hy. Wormald £58 16s. 10d., R. Thomas & Son £164 3s. 8d.; Bills Receivable, £338 10s. 0d.; and Cash at Bank, £264 17s. 9d.; total, £5,773 2s. 0d.

Liabilities :—Bills Payable, £484 15s. 3d.; owing to Barnard & Co., £123 9s. 0d.; total, £608 4s. 3d.; *Capital*, £5,164 17s. 9d.

The business is to be sold to a Company formed under the style of A. Thornbury & Co. Ltd., whose Nominal Capital is £10,000, divided into 400 6% Preference Shares of £10 each and 6,000 Ordinary Shares of £1 each.

The Vendor (A. Thornbury) agrees to sell all the above-mentioned assets (excepting the Cash at Bank, £264 17s. 9d.) and the Company is to pay his liabilities as stated, £608 4s. 3d., and is to pay A. T. £5,500 in the following manner :—200 fully-paid Preference Shares, £2,000; 2,000 fully-paid Ordinary Shares, £2,000; and Cash, £1,500.

A. Thornbury's Capital, as above, is £5,164 17s. 9d.; deducting the Cash at Bank, which he does *not* sell (£264 17s. 9d.), leaves a nett sum of £4,900 : the difference between this and the £5,500 purchase price is £600, which is the amount charged to the Purchasers by A. T. for the *Goodwill* of the business.

The Company is registered on 1st July, 1902, and seven persons become subscribers for one Preference Share each in order to constitute the Company, and they pay the amount, £1 each, to the Company's Bankers. The Nominal or authorised amount of Preference Capital is £4,000 : it is decided to only issue altogether £3,000 at present, viz. :—

A. Thornbury takes	... 200	Shares	£2,000
Seven Subscribers	... 7	,,	70
Leaving available for issue ...	... 93	,,	930
	300	,,	£3,000

The Nominal amount of Ordinary Share Capital is £6,000 : it is decided to only issue £3,000 at present, viz. :—

A. Thornbury takes ...	... 2,000	Shares	£2,000
Leaving available for issue ...	... 1,000	,,	1,000
	3,000	,,	£3,000

In July, either by the issue of a Prospectus or privately, the following applications are received on the dates stated:—

1902.		Preference Shares.	Ordinary Shares.
July 4.	—Thomas Gray	20	100
,, 4.	—Walter Rushworth	30	200
,, 6.	—Henry Mackennal	10	160
,, 6.	—George Sherwood	—	240
,, 7.	—James Thornbury	33	280
,, 8.	—Robert Barker	—	20
		93	1,000

Each applicant has paid in to the Banking Account of the Company £2 per share on Preference Shares and 5s. per share on Ordinary Shares, on the dates stated above. On July 22nd the allotment takes place, when further sums of £3 per share (Preference) and 10s. per share (Ordinary) are due. Notice of this is sent to each Allottee, and the amounts are duly paid by each Shareholder.

On 31st of August the final balance is *Called up*, viz., £5 per share (Preference) and 5s. per share (Ordinary): these amounts are also duly paid by each Shareholder, whose liability to the Company now entirely ceases.

The following Journal entries shew all the transactions, and should be compared with page 195, Part II., and with the explanations below.

A. THORNBURY & CO. LTD.—JOURNAL. 1

	1902				£	s.	d.	£	s.	d.
A	July	1	Alfred Thornbury ... ... Dr.	1	10	0	0			
			Mary Ann Thornbury (Mrs.) ... ... ,,	2	10	0	0			
			Thomas Gray ... ... ,,	3	10	0	0			
			Henry Waring ... ... ,,	4	10	0	0			
			Rebecca Waring (Mrs.) ... ... ,,	5	10	0	0			
			James Thornbury ... ... ,,	6	10	0	0			
			Walter Rushworth ... ... ,,	7	10	0	0			
			To Preference Share Capital Account, for Shares subscribed	1				70	0	0
B		1	Goodwill ... ... Dr.	3	600	0	0			
			Land and Buildings ... ... ,,	4	3000	0	0			
			Machinery ... ... ,,	5	1700	0	0			
			Trading Account—Stock ... ... ,,	6	246	13	9			
			H. Wormald ... ... ,,	7	58	16	10			
			R. Thomas & Son ... ... ,,	8	164	3	8			
			Bills Receivable ... ... ,,	9	338	10	0			
			To Alfred Thornbury, Purchase Account, for Assets purchased as per agreement dated 1st July, 1902	15				6108	4	3
C		1	Alfred Thornbury, Purchase Account ... Dr.	15	608	4	3			
			To Bills Payable	10				484	15	3
			,, Barnard & Co., for Liabilities taken over as per agreement dated 1st July, 1902	11				123	9	0
D		1	Alfred Thornbury, Preference Shares A/c. Dr.	1	2000	0	0			
			To Preference Share Capital A/c., for 200 shares	1				2000	0	0
			Alfred Thornbury, Ordinary Shares A/c. Dr.	1	2000	0	0			
			To Ordinary Share Capital A/c., for 2,000 shares For shares allotted as per agreement dated July 1st, 1902	2				2000	0	0
E		1	Alfred Thornbury, Purchase Account ... Dr.	15	4000	0	0			
			To Alfred Thornbury, Preference Shares A/c. 200 fully paid shares of £10 each.	1				2000	0	0
			To Alfred Thornbury, Ordinary Shares A/c. 2,000 fully paid shares of £1 each	1				2000	0	0
			Being shares agreed to be taken by him in part payment of purchase money, as per agreement dated July 1st, 1902.							
F		8	Sundry Persons... ... ... Dr.	1	436	0	0			
			To Preference Shares Application Account—£2 per share.	12				186	0	0
			To Ordinary Shares Application Account—5s. per share.	12				250	0	0
			for amounts due on application, viz. :—							

		Preference. Shares.	£	*Ordinary.* Shares.	£
4	Thomas Gray ...	20	40	100	25
4	Walter Rushworth...	30	60	200	50
6	Henry Mackennal	10	20	160	40
6	George Sherwood ...	—	—	240	60
7	Jas. Thornbury ...	33	66	280	70
8	Robert Barker ...	—	—	20	5
		93	186	1000	250

A. THORNBURY & CO. LTD.—JOURNAL. 2

	19	02			£	s.	d.	£	s.	d.
F	July	22	Sundry Persons... ... ... Dr.	1	779	0	0			
			To Preference Shares Allotment Account—							
			£3 per share.	13				279	0	0
			To Ordinary Shares Allotment Account—							
			10s. per share.	13				500	0	0
			for amounts due on application, viz. :—							

	Preference. Shares.	£	*Ordinary.* Shares.	£
Thomas Gray ...	20	60	100	50
Walter Rushworth...	30	90	200	100
Henry Mackennal ...	10	30	160	80
George Sherwood ...	—	—	240	120
Jas. Thornbury ...	33	99	280	140
Robert Barker ...	—	—	20	10
	93	279	1000	500

F	Aug	31	Sundry Persons... ... ... Dr.	1	715	0	0			
			To Preference Shares Call Account—							
			£5 per share.	14				465	0	0
			To Ordinary Shares Call Account—							
			5s. per share.	14				250	0	0
			for amounts due on call, viz. :—							

	Preference. Shares.	£	*Ordinary.* Shares.	£
Thomas Gray ...	20	100	100	25
Walter Rushworth...	30	150	200	50
Henry Mackennal ...	10	50	160	40
George Sherwood ...	—	—	240	60
Jas. Thornbury ...	33	165	280	70
Robert Barker ...	—	—	20	5
	93	465	1000	250

G		31	Preference Shares Application Account... Dr.	12	186	0	0			
			Do. Allotment do. ... ,,	13	279	0	0			
			Do. Call do. ... ,,	14	465	0	0			
			To Preference Share Capital Account	1				930	0	0
			for 93 shares fully called up.							
G		31	Ordinary Shares Application Account ... Dr.	12	250	0	0			
			Do. Allotment do. ... ,,	13	500	0	0			
			Do. Call do. ... ,,	14	250	0	0			
			To Ordinary Share Capital Account	2				1000	0	0
			for 1,000 shares fully called up.							
H	Sep.	30	Interest Account ... . Dr.	17	18	15	0			
			To A. Thornbury	15				18	15	0
			for 3 months' interest on £1,500 @ 5 %							

Explanation.—

A.—The seven original subscribers become Shareholders by the fact of their having signed the Memorandum and Articles of Association; and become liable to pay for their shares in cash. This entry introduces them as indebted to the Share

Capital Account (the debits are posted to the Register of Shareholders).

B.—The Company having agreed to purchase these assets, they are now entered as Debtor to the Vendor, A. Thornbury.

C.—These liabilities are to be discharged by the Company in part payment for the Assets acquired (B): therefore the Vendor becomes Debtor.

D.—The Vendor agrees to take 200 Preference Shares and 2,000 Ordinary Shares: he thereby becomes indebted to the Share Capital Accounts. The fact that he does not pay cash for these but pays *value* (Assets) does not alter this initial position in which he stands to the Company. (The debits are posted to the Register of Shareholders.)

E.—This entry records that the Vendor receives part of his purchase price by the settlement of the debt he owes to the Company for the shares he has agreed to take (D). (The credits are posted to the Register of Shareholders.)

F.—These entries simply record the indebtedness of the several applicants for the amounts falling due on their shares, up to the last instalment (call). (The debits are posted to the Register of Shareholders.)

G.—The shares having now been called up in full the application, allotment, and call accounts are closed by transfer entries to the respective Share Capital Accounts.

H.—A. Thornbury is entitled by the agreement to receive Interest on the portion of the Purchase money which is payable in cash from 1st July until the date of payment. The £1,500 is paid to him as per Cash Book on Sept. 30th, hence this entry.

A. THORNBURY & CO. LTD.—LEDGER.

1	*Dr.*	PREFERENCE SHARE CAPITAL ACCOUNT.							*Cr.*			1
				1902			Shares	J	£	s.	d.	
			July	1	By Sundries ...	7	1	70	0	0	
				,,	,, Alfred Thornbury...	200	1	2,000	0	0	
			Aug.	31	,, Sundries ...	93	2	930	0	0	
						300		3,000	0	0	

2 *Dr.* **ORDINARY SHARE CAPITAL ACCOUNT.** *Cr.* 2

			Shares	J	£	s.	d.
1902 July 1	By A. Thornbury ..	2,000	1	2,000	0	0
Aug. 31	„ Sundries	1,000	2	1,000	0	0
		3,000		3,000	0	0

3 *Dr.* **GOODWILL ACCOUNT.** *Cr.* 3

		J	£	s.	d.
1902 July 1	To A. Thornbury...	1	600	0	0

4 *Dr.* **LAND AND BUILDINGS ACCOUNT.** *Cr.* 4

		J	£	s.	d.
1902 July 1	To A. Thornbury...	1	3,000	0	0

5 *Dr.* **MACHINERY ACCOUNT.** *Cr.* 5

		J	£	s.	d.
1902 July 1	To A. Thornbury...	1	1,700	0	0

6 *Dr.* **TRADING ACCOUNT.** *Cr.* 6

		J	£	s.	d.
1902 July 1	To A. Thornbury, Stock	1	246	13	9

7 *Dr.* **H. WORMALD.** *Cr.* 7

		J	£	s.	d.
1902 July 1	To A. Thornbury, Debt Due ...	1	58	16	10

8 *Dr.* **R. THOMAS & SON.** *Cr.* 8

19	02		J	£	s.	d.								
July	1	To A. Thornbury, Debt Due ...	1	164	3	8								

9 *Dr.* **BILLS RECEIVABLE.** *Cr.* 9

19	02		J	£	s.	d.								
July	1	To A. Thornbury, Bills in Hand ...	1	338	10	0								

10 *Dr.* **BILLS PAYABLE.** *Cr.* 10

							19	02		J	£	s.	d.
							July	1	By A. Thornbury, Bills running ...	1	484	15	3

11 *Dr.* **BARNARD & CO.** *Cr.* 11

							19	02		J	£	s.	d.
							July	1	By A. Thornbury, Debt Owing ...	1	123	9	0

12 *Dr.* **APPLICATION ACCOUNT.** *Cr.* 12

				Preference	Ordinary						Preference	Ordinary	
19	02		J				19	02		J			
Aug.	31	To Share Capital A/cs.	2	186	0	0	July	8	By Sundries ...	1	186	0	0
				250	0	0					250	0	0

13 *Dr.* **ALLOTMENT ACCOUNT.** *Cr.* 13

				Preference	Ordinary						Preference	Ordinary	
19	02		J				19	02		J			
Aug.	31	To Share Capital A/cs.	2	279	0	0	July	31	By Sundries ...	2	279	0	0
				500	0	0					500	0	0

14 *Dr.* **CALL ACCOUNT.** *Cr.* 14

19 02		J	Preference	Ordinary	19 02		J	Preference	Ordinary
Aug. 31	To Share Capital A/cs.	2	465 0 0	250 0 0	Aug. 31	By Sundries ...	2	465 0 0	250 0 0

15 *Dr.* **ALFRED THORNBURY—PURCHASE ACCOUNT.** *Cr.* 15

19 02		J	£	s.	d.	19 02		J	£	s.	d.
July 1	To Bills Payable ...	1	484	15	3	July 1	By Goodwill ...	1	600	0	0
,, ,,	,, Barnard & Co.	1	123	9	0	,, ,,	,, Land and Buildings ...	1	3,000	0	0
,, ,,	,, Balance down...		5,500	0	0	,, ,,	,, Machinery ...	1	1,700	0	0
						,, ,,	,, Stock	1	246	13	9
						,, ,,	,, H. Wormald ...	1	58	16	10
						,, ,,	,, R. Thomas & Son	1	164	3	8
						,, ,,	,, Bills Receivable	1	338	10	0
			6,108	4	3				6,108	4	3
July 1	To A.T. Preference Shares A/c. ...	1	2,000	0	0	July 1	By Balance... ...		5,500	0	0
,, ,,	,, ,, Ordinary ,,	1	2,000	0	0	Sep. 30	,, Interest (3 months on £1,500 @ 5%)	2	18	15	0
Sep. 30	,, Cash	CB 1	1,518	15	0						
			5,518	15	0				5,518	15	0

16 *Dr.* **PRELIMINARY EXPENSES ACCOUNT.** *Cr.* 16

19 02		CB	£	s.	d.
July 1	To Cash, Stamp Duty	1	22	10	0
Aug. 18	,, Cash, Lawford & Sons' Legal charges ..	1	128	15	6

17 *Dr.* **INTEREST ACCOUNT.** *Cr.* 17

19 02		J	£	s.	d.
Sept. 30	To A. Thornbury, 3 months' Interest on £1,500 @ 5%....	2	18	15	0

A. THORNBURY & CO. LTD.—CASH BOOK.

				Cash.			Bank.							Bank.		
1902				£	s.	d.	£	s.	d.	1902				£	s.	d.
July	1	To Alf. Thornbury ...	1	10	0	0				July	1	By Preliminary Expenses A/c.				
	,,	,, M. A. Thornbury ...	2	10	0	0						Stamp Duties on Registration	16	32	10	0
	,,	,, Thos. Gray	3	10	0	0										
	,,	,, Henry Waring	4	10	0	0										
	,,	,, Rebecca Waring ...	5	10	0	0										
	,,	,, Jas. Thornbury ...	6	10	0	0				Aug.	18	,, Preliminary Expenses A/c.				
	,,	,, Walter Rushworth ...	7	10	0	0	70	0	0			Lawford and Sons, Legal Charges ...	16	128	15	6
	4	,, T. Gray, 20 Pref.	3	40	0	0										
	,,	,, ,, 100 Ord.	2	25	0	0										
	,,	,, W. Rushworth, 30 Pref.	7	60	0	0										
	,,	,, ,, 200 Ord.	3	50	0	0	175	0	0	Sep.	30	,, A. Thornbury, Balance Purchase A/c. ...	15	1518	15	0
	6	,, H. Mackennal, 10 Pref.	8	20	0	0										
	,,	,, ,, 160 Ord.	4	40	0	0										
	,,	,, G. Sherwood, 240 Ord.	5	60	0	0	120	0	0		,,	,, Balance down	✓	319	19	6
	7	,, J. Thornbury, 33 Pref.	6	66	0	0										
	,,	,, ,, 280 Ord.	6	70	0	0	136	0	0							
	8	,, R. Barker, 20 Ord.	7	5	0	0	5	0	0							
	23	,, G. Sherwood, 240 Ord.	5	120	0	0	120	0	0							
	24	,, T. Gray, 20 Pref.	3	60	0	0										
	,,	,, ,, 100 Ord.	2	50	0	0	110	0	0							
	25	,, J. Thornbury, 33 Pref.	6	99	0	0										
	,,	,, ,, 280 Ord.	6	140	0	0										
	,,	,, R. Barker, 20 Ord.	7	10	0	0	249	0	0							
	26	,, W. Rushworth, 30 Pref.	7	90	0	0										
	,,	,, ,, 200 Ord.	3	100	0	0										
	,,	,, H. Mackennal, 10 Pref.	8	30	0	0										
	,,	,, ,, 160 Ord.	40	80	0	0	300	0	0							
Sep.	1	,, Thomas Gray, 20 Pref.	3	100	0	0										
	,,	,, ,, 100 Ord.	2	25	0	0										
	,,	,, H. Mackennal, 10 Pref.	8	50	0	0										
	,,	,, ,, 160 Ord.	4	40	0	0	215	0	0							
	3	,, W. Rushworth, 30 Pref.	7	150	0	0										
	,,	,, ,, 200 Ord.	3	50	0	0	200	0	0							
	4	,, G. Sherwood, 240 Ord.	5	60	0	0										
	,,	,, J. Thornbury, 33 Pref.	6	165	0	0										
	,,	,, ,, 280 Ord.	6	70	0	0	295	0	0							
	6	,, R. Barker, 20 Ord.	7	5	0	0	5	0	0							
				2000	0	0	2000	0	0							
Oct.	1	,, Balance	✓				319	19	6							

If the receipts from Shareholders are *very* numerous, a separate Cash Book would be used; in the example the items do not necessitate this, but for simplicity's sake the Discount columns and all transactions arising out of the Trading are omitted.

EXERCISE 61.

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
Sundry Creditors ...	2350	0	0	Sundry Debtors ...	3500	0	0
Cecil Collin, Capital	5000	0	0	Freehold Property...	3750	0	0
Septimus Chant, Capital	3000	0	0	Machinery, Plant, &c.	2000	0	0
Bank	750	0	0	Stock	1500	0	0
				Office Furniture ...	350	0	0
	11100	0	0		11100	0	0

The above is Balance Sheet of Collin & Chant at 31st December, 1901. They decide to convert their business into a Limited Company; the purchase price as per Agreement dated 1st January, 1902, is £12,000, including £900 for Goodwill, the Company to take over all the Assets, and to pay on account of the Vendors the Sundry Creditors (the Bank Overdraft to be paid by the Vendors themselves). The Nominal Capital of Collin & Chant Ltd., the new Company, is £16,000, divided into 800 6% Cumulative Preference Shares of £10 each and 3,000 Ordinary Shares of £1 each.

The Vendors, according to the Agreement, take 6,000 fully paid Ordinary Shares and 200 fully paid Preference Shares as part payment of the purchase price, the remainder of which is to be paid in Cash.

It is decided not to issue any further Ordinary Shares but to offer the whole of the remaining Preference Shares for Subscription.

They are applied for as follows:—

Arthur Blake	60	Charles Rooke	300
Henry Field	150	William Kingston ...	60
Mary Kingston	30		

£2 per Share is paid on application on 1st January, £3 is due on Allotment on 13th January and paid on the 15th, and a call of £5 is made on 1st February and paid on the 3rd February.

The Shares are allotted to the two partners in proportion to their Capital in the Old Business, and the Cash is paid to them in same proportion on February 3rd. Shew the entries which should be made in the Journal and Cash Book of the New Company to record the above transactions.

EXERCISE 62.

Collin & Chant Ltd. Open the Ledger Accounts of the Company and post the entries referred to in Exercise 61, omitting personal accounts of Shareholders, except C. Collin and S. Chant.

CHAPTER XXXII

Register of Members and Share Ledger—Register of Transfers—Payment of Dividends—Deduction of Tax—Forfeited Shares

Section 25 of the Companies Act, 1862, states that every Company under this Act shall cause to be kept in one or more books a Register of its Members, shewing their names, addresses, and occupations, the number of shares held by each, and the distinguishing numbers of the shares; also the amount paid thereon. Section 32 provides that the Register shall be open to Members for inspection free of charge, and to any other person on payment of one shilling.

The power of inspection of the Register is chiefly of practical value so long as the Shares are *not* fully paid up. As previously explained, Shareholders are liable to pay the Company's debts up to the amount *unpaid* on their Shares, and it is of some consequence that a Creditor, or a person who is invited to become a Creditor, should be able to ascertain who the Shareholders are, and so form his own opinion as to their ability or non-ability to pay Calls if necessary. This is the object of Section 32; *after* the Shares are fully paid, the question who are the holders of Shares is a matter of little or no moment to a Creditor, as the Shareholder's liability has then ceased.

It will be observed that the required particulars need not be recorded in one Book only, but may be contained in two or more volumes. In most cases it is convenient to shew them coupled with the Ledger Account of each Shareholder in one Book—the Register of Members. The left-hand page is appropriated to the purely *Register* or *statistical* details, the right-hand page being used as an ordinary Ledger Account. The printed headings will sufficiently explain the manner in which the records are to be kept, and the Ledger Accounts are posted up from the Journal and Cash Book set forth in pages 229, 230, and 235.

When the Shares are all fully paid up, and the Company has been established a few years, the number of changes (or Transfers) may render a new Register necessary. In the absence of any probability of an increase in Capital by issue of further Shares, the new Register may provide only the information on the left-hand page, and the Ledger portion may be omitted altogether.

The accounts of different classes of Shares should be kept in separate portions of the same Register if the Shareholders are *few*; if numerous, a separate Register for each class should be used.

When Shares are sold, a Transfer Deed must be signed by vendor and purchaser and properly stamped; this document is handed to the Secretary together with the Share Certificate; it is "passed" by the Directors and registered (see Register of Transfers) and a new Certificate issued in the name of the Purchaser. Usually a fee of 2s. 6d. is paid to the Company for each Transfer.

Upon the death of a Shareholder, the Probate of Will or Letters of Administration must be registered by the Company, thereby placing the Shares in the name of his Executor or Administrator.

REGISTER OF MEMBERS.—PREFERENCE SHARES.

Name: ALFRED THORNBURY.
Address and Occupation: 9, Redwell Street, Birmingham, Manufacturer.

Date of Entry as a Member, July 1st, 1902.
Date when ceased to be a Member. 1

SHARES ACQUIRED.					SHARES TRANSFERRED.					Dr. CASH ACCOUNT. Cr.											
Date.		Number of Allotment or Transfer.	Distinctive Numbers. From	Distinctive Numbers. To	Number of Shares.	Date.		Distinctive Numbers. From	Distinctive Numbers. To	Number of Shares.	Balance of Shares.	Date.			Folio.	Amount. £	Amount. s.	Amount. d.	Date.			Folio.	Amount. £	Amount. s.	Amount. d.
1902 July	1	1	1		1	1902 Oct.	1	8	107	100	101	1902 July	1	To Preference Share Captl. Account ...	J1	10	0	0	1902 July	1	By Cash ...	1	10	0	0
	22	8	8	207	200																Purchase Account	J1	2000	0	0
													,,	,, Ditto ...	J1	2000	0	0							

Name: MARY ANN THORNBURY.
Address and Occupation: 9, Redwell Street, Birmingham (Wife of Alfred Thornbury)

Date of Entry as a Member, July 1st, 1902.
Date when ceased to be a Member. 2

1902 July	1	2	2		1							1902 July	1	To Preference Share Captl. Account ...	J1	10	0	0	1902 July	1	By Cash ...	1	10	0	0

Name: THOMAS GRAY.
Address and Occupation: 80, Saville Street, Birmingham, Cashier.

Date of Entry as a Member, July 1st, 1902.
Date when ceased to be a Member. 3

1902 July	1	3	3		1							1902 July	1	To Pref. Share Captl. A/c.	J1	10	0	0	1902 July	1	By Cash ...	1	10	0	0
	22	9	208	227	20								4	,, Ditto ditto Applic. A/c.	J1	40	0	0		4	,, ,, ...	1	40	0	0
													22	,, Ditto ditto Allot. A/c....	J2	60	0	0		24	,, ,, ...	1	60	0	0
												Aug.	31	,, Ditto ditto Call A/c. ...	J2	100	0	0	Sep.	1	,, ,, ...	1	100	0	0

REGISTER OF MEMBERS.—PREFERENCE SHARES—*continued.*

Name: HENRY WARING.
Address and Occupation: 40, Broad Avenue, Walsall, Clothier.

Date of entry as a Member, July 1st, 1902.
Date when ceased to be a Member. 4

1902 July	1	4	4		1								1902 July	1	To Preference Share Capitl. Account ...	J 1	£ 10	s. 0	d. 0	1902 July	1	By Cash ...	1	£ 10	s. 0	d. 0

Died July 12th, 1902. Probate Registered Oct. 1st, 1902.
Henry Waring, 40, Broad Avenue, Walsall, Sole Executor.

Name: REBECCA WARING.
Address and Occupation: 40, Broad Avenue, Walsall (Wife of Henry Waring).

Date of entry as a Member, July 1st, 1902.
Date when ceased to be a Member. 5

1902 July	1	5	5		1								1902 July	1	To Preference Share Capitl. Account ...	J 1	£ 10	s. 0	d. 0	1902 July	1	By Cash ...	1	£ 10	s. 0	d. 0

Name: JAMES THORNBURY.
Address and Occupation: 9, Redwell Street, Birmingham, Manager.

Date of entry as a Member, July 1st, 1902.
Date when ceased to be a Member. 6

1902 July	1	6	6		1								1902 July	1	To Pref. Share Capitl. A/c.	J 1	£ 10	s. 0	d. 0	1902 July	1	By Cash ...	1	£ 10	s. 0	d. 0
	22	12	268	300	33									7	,, ,, ...	1	66	0	0		7	,, ,, ...	1	66	0	0
Oct.	1	1	8	107	100									7	,, Ditto ditto Applic. A/c.	1	66	0	0		25	,, ,, ...	1	99	0	0
														22	,, Ditto ditto Allot. A/c....	2	99	0	0	Sep.	4	,, ,, ...	1	165	0	0
													Aug.	31	,, Ditto ditto Call A/c. ...	2	165	0	0							

REGISTER OF MEMBERS.—PREFERENCE SHARES—*continued.*

Name: WALTER RUSHWORTH.
Address and Occupation: 51, Prince Street, Birmingham, Solicitor.

Date of entry as a Member, July 1st, 1902.
Date when ceased to be a Member. 7

1902												1902				£	s.	d.	1902				£	s.	d.
July	1	7	7		1							July	1	To Pref. Share Capital A/c.	J 1	10	0	0	July	1	By Cash	1	10	0	0
	22	10	228	257	80								4	,, Do. Application A/c. ...	J 1	60	0	0		4	,, do.	1	60	0	0
													22	,, Do. Allotment A/c. ...	J 2	90	0	0		26	,, do.	1	90	0	0
												Aug.	31	,, Do. Call A/c.	J 2	150	0	0	Sep.	3	,, do.	1	150	0	0

Name: HENRY MACKENNAL.
Address and Occupation: Fore Street, Nuneaton, Commercial Traveller.

Date of entry as a Member, July 22nd, 1902.
Date when ceased to be a Member. 8

1902												1902				£	s.	d.	1902				£	s.	d.
July	22	11	258	267	10							July	6	To Pref. Share Application A/c.	J 1	20	0	0	July	6	By Cash	1	20	0	0
													26	,, do.	1	30	0	0							
													22	,, Do. Allotment A/c. ...	J 2	30	0	0	Sep.	1	,, do.	1	50	0	0
												Aug.	31	,, Do. Call A/c.	J 2	50	0	0							

REGISTER OF MEMBERS.—ORDINARY SHARES.

Name: ALFRED THORNBURY. Date of Entry as a Member, July 1st, 1902.

Address and Occupation: 9, Redwell Street, Birmingham, Manufacturer. Date when ceased to be a Member. 1

SHARES ACQUIRED.					SHARES TRANSFERRED.						*Dr.* CASH ACCOUNT.									*Cr.*				
Date.	Number of Allotment or Transfer.	Distinctive Numbers. From	Distinctive Numbers. To	Number of Shares.	Date.	Number of Transfer.	Distinctive Numbers. From	Distinctive Numbers. To	Number of Shares.	Balance of Shares.	Date.		Folio.	Amount. £	s.	d.	Date.		Folio.	Amount. £	s.	d.
1902 July 1	1	1	2000	2000							1902 July 1	To Ordinary Share Capital A/c. ...	J1	2000	0	0	1902 July 1	By Purchase A/c ...	J1	2000	0	0

Name: THOMAS GRAY. Date of Entry as a Member, July 22nd, 1902.

Address and Occupation: 80, Saville Street, Birmingham, Cashier. Date when ceased to be a Member, Nov. 27th, 1902. 2

1902 July 22	2	2001	2100	100	1902 Nov. 27	2	2001	2100	100		1902 July 4	To Ordinary Share Application A/c	J1	25	0	0	1902 July 4	By Cash...	1	25	0	0
																		24 ,, ,, ...	1	50	0	0
											22	,, Ditto Allotment A/c.	J2	50	0	0	Sep. 1	,, ,, ...	1	25	0	0
											Aug. 31	,, Ditto Call A/c ...	J2	25	0	0						

Name: WALTER RUSHWORTH. Date of Entry as a Member, July 22nd, 1902.

Address and Occupation: 51, Prince Street, Birmingham, Solicitor. Date when ceased to be a Member. 3

1902 July	22	3	2101	2300	200							1902 July	4	To Ordinary Share Application A/c	J1	£ 50	s. 0	d. 0	1902 July	4	By Cash...	1	£ 50	s. 0	d. 0
													22	,, Ditto Allotment A/c...	2	100	0	0		26	,, ,,	1	100	0	0
												Aug.	31	,, Ditto Call A/c ...	2	50	0	0	Sep.	3	,, ,,	1	50	0	0

Name: HENRY MACKENNAL. Date of Entry as a Member, July 22nd, 1902.

Address and Occupation: Fore Street, Nuneaton, Commercial Traveller. Date when ceased to be a Member. 4

1902 July	22	4	2301	2460	160							1902 July	6	To Ordinary Share Application A/c.	J1	£ 40	s. 0	d. 0	1902 July	6	By Cash...	1	£ 40	s. 0	d. 0
													22	,, Ditto Allotment A/c....	2	80	0	0		26	,, ,, ...	1	80	0	0
												Aug.	31	,, Ditto Call A/c. ...	2	40	0	0	Sep.	1	,, ,, ...	1	40	0	0

Name: GEORGE SHERWOOD. Date of Entry as a Member, July 22nd, 1902.

Address and Occupation: 18, Harepark Road, Birmingham, Grocer. Date when ceased to be a Member. 5

1902 July	22	5	2461	2700	240							1902 July	6	To Ordinary Share Application A/c.	J1	£ 60	s. 0	d. 0	1902 July	6	By Cash...	1	£ 60	s. 0	d. 0
													22	,, Ditto Allotment A/c....	2	120	0	0		23	,, ,, ...	1	120	0	0
												Aug.	31	,, Ditto Call A/c. ...	2	60	0	0	Sep.	4	,, ,, ...	1	60	0	0

REGISTER OF MEMBERS—ORDINARY SHARES—*continued.*

Name: JAMES THORNBURY. Date of Entry as a Member, July 22nd, 1902.

Address and Occupation: 9, Redwell Street, Birmingham, Manager. Date when ceased to be a Member. 3

1902												1902					£	s.	d.	1902					£	s.	d.
July	22	6	2701	2980	280							July	7	To Ordinary Share Application A/c.	J1		70	0	0	July	7	By Cash...	1		70	0	0
													22	,, Ditto Allotment A/c. ...	2		140	0	0		25	,, ,, ...	1		140	0	0
												Aug.	31	,, Ditto Call A/c. ...	2		70	0	0	Sep.	4	,, ,, ..	1		70	0	0

Name: ROBERT BARKER. Date of Entry as a Member, July 22nd, 1902.

Address and Occupation: 86, Persore Road, King's Norton, Clerk. Date when ceased to be a Member. 7

1902												1902					£	s.	d.	1902					£	s.	d.
July	22	7	2981	3000	20							July	8	To Ordinary Share Application A/c.	J1		5	0	0	July	8	By Cash...	1		5	0	0
Nov.	27	2	2001	2100	100																25	,, ,, ...	1		10	0	0
													22	,, Ditto Allotment A/c. ...	2		10	0	0	Sep.	6	,, ,, ...	1		5	0	0
												Aug.	31	,, Ditto Call A/c. ...	2		5	0	0								

REGISTER OF TRANSFERS.

Number of Transfer.	Date of Transfer.	Date when Registered.	From whom Transferred.				Shares Transferred.						To whom Transferred.			
							Preference.			Ordinary.						
			Name.	Address.	Occupation.	Fo. in Reg.	Number.	Distinctive Nos. From	Distinctive Nos. To	Number.	Distinctive Nos. From	Distinctive Nos. To	Name.	Address.	Occupation.	Fo. in Reg.
1	1902 Sep. 7	1902 Oct. 1	A. Thornbury	9, Redwell St., Birmingham	Manufacturer	1	100	8	107				J. Thornbury	9, Redwell St., Birmingham	Mangr.	6
—	Oct. 1	Oct. 1	R. Waring, died July 12, 1902.	40, Broad Av., Walsall ...	Married woman	5	1	5					H. Waring, Sole Exec.	40, Broad Av., Walsall ..	Clothi'r	5
			Probate granted Sept. 27th, 1902													
2	Nov. 17	Nov. 27	Thomas Gray	80, Saville St., Birmingham	Cashier	2				100	2001	2100	Robt. Barker	86, Persore Rd. Kg's. Norton	Clerk ...	7

Payment of Dividends.—The method of paying a Dividend to Shareholders is as follows:—Assume that a Company's Balance Sheet is made up to 31st December, 1902, and that on 15th February, 1903, the Meeting of Shareholders is held, when a Dividend of 5% per annum for the 12 months is declared, there being only one class of Shares. This Dividend is payable to the persons who are registered Shareholders on the 15th February, 1903, irrespective of the date when they may have purchased the shares (this is why large Companies "close their Registers" for a short period, say a week or ten days, prior to the date of payment of a Dividend, so that the constant changing of holders may be stopped whilst the Dividends are being prepared). The List is prepared in the following form:—

LIST OF DIVIDENDS.

Ordinary Dividend for Year ending 31st December, 1902. Paid 15th February, 1903.

Folio in Register.	Name of Shareholder.	Number of Shares.	Amount of Shares. £	s.	d.	Dividend at 5 per cent. £	s.	d.	Income Tax deducted at 1/2¾ in the £. £	s.	d.	Nett Amount. £	s.	d.	Remarks.
1	Robert Saker	236	2360	0	0	118	0	0	7	5	0	110	15	0	
2	John McLeod	10	100	0	0	5	0	0	0	6	2	4	13	10	
4	Annie Kerr (Mrs.) ...	100	1000	0	0	50	0	0	3	1	6	46	18	6	Pay to Parr's Bank, Eccles.
5	Frank O. Cory... ...	5	50	0	0	2	10	0	0	3	1	2	6	11	
7	George A. Utley ...	118	1180	0	0	59	0	0	3	12	6	55	7	6	
8	Mary Feasey (Miss) ...	50	500	0	0	25	0	0	1	10	9	23	9	3	
9	Henry C. Pavitt ...	25	250	0	0	12	10	0	0	15	4	11	14	8	
13	Wm. Krepp (and others)	177	1770	0	0	88	10	0	5	8	9	83	1	3	Pay to Lloyds Bank Ltd., Wolverhampton, to A/c of W. Krepp's Executors.
14	Edwin Palmer... ...	10	100	0	0	5	0	0	0	6	2	4	13	10	
15	Thomas H. A. Day ...	200	2000	0	0	100	0	0	6	2	11	93	17	1	
18	Edith Whatley (Miss)	1	10	0	0	0	10	0	0	0	8	0	9	4	
19	Alfred Wright... ...	68	680	0	0	34	0	0	2	1	9	31	18	3	
		1000	10,000	0	0	500	0	0	30	14	7	469	5	5	

The Income Tax Sch. D for the year *ending 5th April, 1902*, is 1s. 2d., and for the year *ending 5th April, 1903*, is 1s. 3d. in the £. For ordinary purposes this may be averaged for the year *ending 31st December, 1902*, as follows:—

3 months @ 1s. 2d. ... 3s. 6d.
9 months @ 1s. 3d. ... 11s. 3d.

12 months ... ... 14s. 9d.

14s. 9d. divided by 12=1s. 2¾d. average.

To be precise, the periods are 95 days @ 1s. 2d. and 270 days @ 1s. 3d., which give an average of 1s. 2·739d.

A Notice is sent by post to each Shareholder, consisting of two parts, the upper portion being a circular letter containing particulars of the amount due, called the "Dividend Statement," and the lower portion is in the form of a cheque (Dividend Warrant) drawn upon the Company's Bankers for the amount payable. When the List of Shareholders is a lengthy one, it is convenient to open a separate account at the Bank, called Ordinary Dividend Account or Preference Dividend Account, for each different class. A cheque is drawn on the General Account for the total amount, and this cheque is paid into the Bank to the credit of, say, Ordinary Dividend Account. The Dividend Warrants as they are paid by the Bank are debited to this account, and so these numerous items do not become scattered through the General Account with the Bank, and the payments are more easily checked off with the Dividend List. The payment of Interest upon Stock or Debentures is dealt with in exactly the same manner.

Dividends may be paid at the Company's office by cheque or in cash, and small amounts may be remitted by Postal Order or stamps, but the above is the common practice except in the case of very small concerns or private Companies whose membership as a rule does not exceed the statutory minimum of seven persons.

Dividends may be paid either Free of Income Tax or *less* Income Tax. It should be noticed that, treating as a whole the period of years during which the Company exists, the nett Cash result to the Shareholders is precisely the same whichever plan is adopted.

Suppose a Company's profit is £2,400, upon which it pays Income Tax @ 1s. 2d. in the £=£140, leaving nett £2,260 for distribution in Dividend—

(a) *Dividend Free of Income Tax.*—The Shareholders receive cash £2,260

(b) *Dividend paid less Income Tax.*—The Company distribute ... £2,400
less Income Tax ... 140, nett cash £2,260

In the (a) method, the £140 is treated as an *expense* paid by the Company before striking the nett divisible balance; in the

(b) method, the £140 is not treated as an expense but as a payment *on account of the Shareholders*, and is deducted when the Dividend is paid as above.

Forfeiture of Shares.—As a general rule Limited Companies take power in their Articles of Association to forfeit the Shares of any Member who fails to pay that which is due thereon; before doing so the Directors must give notice to the Shareholder that unless the amount due be paid by a certain date the Shares will be liable to be forfeited without further notice. Usually the Articles empower the Company to charge interest also. Take the case of Henry Washburn, a holder of 25 Shares of £10 each in a Company whose total Shares issued are 1,000, and suppose that his account in the Share Ledger stands thus—

Dr. HENRY WASHBURN. *Cr.*

1902.		£	s.	d.	1902.		£	s.	d.
Oct. 1.	—To Application % (£1 per share)	25	0	0	Oct. 1.	—By Cash...	25	0	0
,, 20.	—To Allotment % (£3 per share)	75	0	0	Nov. 1.	—By Cash...	75	0	0
Nov. 18.	—To First Call %... (£2 per share)	50	0	0					
Dec. 14.	—To Second Call % (£4 per share)	100	0	0					

Henry Washburn has paid the Application and Allotment money, but has not paid either the *First* or *Second* Call, of which notices were sent to him in the usual way. On the 31st January, 1903, the Directors pass a Resolution in accordance with the Company's Articles, that a special notice be sent to Henry Washburn informing him that unless the Calls (£150) are paid on or before 28th February, 1903, to the Company's Bankers, the 25 Shares will be liable to be forfeited. This notice having been duly sent, and disregarded by Henry Washburn, on 28th February the Directors pass a Resolution that the 25 Shares be forfeited. The effect of this is that Henry Washburn thereby ceases to be a Shareholder; the number of Shares issued is reduced by 25, and the Share Capital is reduced by £250. The proper mode of dealing with this in the Books is shewn below:—

JOURNAL.

19				£	s.	d.	£	s.	d.
Feb.	28	Share Capital Account	*Dr.*	250	0	0			
		To Henry Washburn					250	0	0
		For 25 Shares, Nos. 1341 to 1365, forfeited by Resolution of Directors.							
	,,	Henry Washburn	*Dr.*	100	0	0			
		To Forfeited Shares Account					100	0	0
		For amount paid by him on 25 Shares now forfeited.							

LEDGER.

Dr. **SHARE CAPITAL ACCOUNT.** *Cr.*

19			£	s.	d.	19			£	s.	d.
Feb.	28	To H. Washburn (25 Shares forfeited) ...	250	0	0	Dec.	31	By Sundries, viz.: 1,000 Shares of £10	10,000	0	0
	,,	,, Balance down	9750	0	0						
						19					
						Feb.	28	By Balance, viz.: 975 Shares ..	9750	0	0

Dr. **FORFEITED SHARES ACCOUNT.** *Cr.*

						19			£	s.	d.
						Feb.	28	By H. Washburn (Amount paid on 25 Shares)	100	0	0

SHARE LEDGER.

Dr. **HENRY WASHBURN.** *Cr.*

19			£	s.	d.	19			£	s.	d.
Oct.	1	To Application A/c. (£1 per share) ...	25	0	0	Oct.	1	By Cash	25	0	0
						Nov.	1	,, do.	75	0	0
	20	,, Allotment A/c. (£3 per share) ...	75	0	0	19					
						Feb.	28	,, Share Capital A/c. (25 Shares Forfeited) ...	250	0	0
Nov.	18	,, First Call A/c. (£2 per share) ...	50	0	0						
Dec.	14	,, Second Call A/c. (£4 per share) ...	100	0	0						
19											
Feb.	28	,, Forfeited Share A/c.	100	0	0						
			350	0	0				350	0	0

Across the left-hand page of the Register of Members would be written in red ink "25 Shares forfeited 28th February, 1903, by Resolution of Directors, for non-payment of First and Second Calls," thus closing the record as far as Henry Washburn is concerned.

The above entries snould be carefully examined; they shew that the Shares being forfeited to the Company, or in other words, *cancelled* as regards any ownership by Washburn, the entries made when the Shares were fully called up (which amounted to Henry Washburn Dr. £250 to Share Capital Account) are now cancelled or reversed by "Share Capital Dr. £250 to Henry Washburn." But the most important feature is that Henry Washburn loses absolutely all that he has paid on account of the Shares, viz., £100, and the Company gain that. This gain which accrues to the Company and which is placed to the credit of Forfeited Shares Account, should not be treated as a Trading Profit, as it does not arise from that source, but should be kept in Reserve (see page 265).

In the example, Interest is not charged. If it had been debited to Henry Washburn the interest would have to be written back when the forfeiture took place (Int. Dr. to Henry Washburn) seeing that he paid neither Calls nor Interest.

After the forfeiture, if the Company's Articles so provide, Henry Washburn still remains legally liable to pay the Calls; and if the Company be wound up within a year after the forfeiture, his liability remains.

The Company is at liberty to sell the Shares, after forfeiture, and re-issue them to another person.

EXERCISE 63.

Henry Winslow's Balance Sheet, 30th June, 1902, is as follows:—

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
Creditors	2500	0	0	Land, Buildings, and Machinery ...	74500	0	0
Loans	3050	0	0	Stock	17500	0	0
Capital	90550	0	0	Bank	1750	0	0
				Cash	50	0	0
				Investments ...	300	0	0
				Debtors	2000	0	0
	96100	0	0		96100	0	0

In July his business is purchased by the Winslow Manufacturing Co. Ltd. The Land, Buildings, and Machinery are valued at £80,000, at which price they are taken over. The Company buy the other Assets (except Investments) at the above figures, and also give £3,700 for Goodwill.

The Purchase Price is payable, £50,000 in 6% Preference Shares, £50,000 in Ordinary Shares, and the remainder in Cash.

The nominal Capital of the Company was £120,000, consisting of 6,000 6% Preference Shares of £10 each and 6,000 Ordinary Shares of £10 each.

1,000 Ordinary Shares were taken up and paid for at once by Sundry Persons.

(NOTE.—Individual names are omitted in this Exercise, to reduce labour; they may be supplied if it is desired to shew each person's account.)

Open the books of the Company.

EXERCISE 64.

The Great Havilah Goldfields Ltd. has a Share Capital issued and subscribed of £80,000, divided into £1 shares. Joseph Slender holds 500 shares, his transactions being:—

June 14th.—Paid Deposit on application for 500 shares @ 2s. 6d. per share.
June 30th.—Paid 5s. per share on allotment.
July 31st.—Paid first Call of 3s. per share.

On September 1st a second Call of 4s. is made, and on November 3rd a third and final Call of 5s. 6d. These two Calls are not paid by Slender, and on December 1st notice of forfeiture is sent to him, to expire on December 28th. As he does not pay, the Directors forfeit the shares on December 31st.

Give the entries in the Company's Books, including opening the Reserve Fund Account.

CHAPTER XXXIII

Debentures and Debenture Stock—Issue at Par, Premium, or Discount—Registers

Limited Companies, to a very large extent, provide themselves with money for the purchase, establishment, and carrying on of their undertakings by means of Debentures, and Debenture Stock, in addition to the funds obtained by the issue of Shares. The first thing to notice is that Debentures represent *Loans* to the Company, whilst Shares represent partners' capital *invested* in the Company; the distinction is, of course, most vital. The term Debenture is mentioned in the Parliament Rolls of the year 1414, Henry V., and since then has been used in widely different senses, but never receiving any exact legal definition. "It is now generally used to signify a *security* for money, called on the face of it a Debenture, and providing for the payment of a specified sum—say £100—at a fixed date with interest meantime half-yearly." (*Company Law:* F. B. Palmer.)

A Debenture may be issued by an individual, a society, a Club, or a Company, but for the purpose of explaining a Limited Company's accounts, we will restrict ourselves to the issue of Debentures by Companies. The Debenture may be a *single* one, i.e., issued to one person only, or it may be one of a series, say £10,000 divided into 100 Debentures of £100 each. The Debenture may be simply an acknowledgment of Debt, or it may carry with it a "charge" upon all or part of the Company's assets as security for repayment of the amount. The latter kind, called "Mortgage Debentures," are most frequently adopted.

In many cases the total debt owing by a Company in respect of Debentures is described as "Debenture Stock," and as a rule the holders of such Stock are allowed to "transfer" fractions thereof. "Debenture" really means the *document* issued by the borrowing Company; "Debenture Stock" means the *debt* due by the Company.

Put shortly, the common procedure is this: a Limited Company borrows, say, £100,000, and issues "Mortgage Debenture Stock" at 4½% interest. Trustees are appointed, to whom the Company's assets are "conveyed" by a Deed called the Debenture

Trust Deed. This Deed only empowers the Trustees to *take possession* of the Company's assets in the event of default in punctual payment of interest half-yearly, *or* of non-payment of the principal sum at the stipulated time, say at the end of ten or fifteen years, *or* of the Company's being "wound-up," &c., &c. So long as the Company carries on its business properly and pays interest regularly, it retains the assets in its own hands without disturbance.

Each person from whom money has been borrowed receives a Mortgage Debenture Certificate for the amount advanced, and these documents closely resemble Share Certificates. Subject to any special conditions, any portion of this Stock can be sold and bought, and the transactions are also very similar to the dealings in *Shares*.

Usually Debenture Stock is issued at the time of the formation of the Company, together with the issue of Shares, and the money is payable by applicants in fixed instalments. For Book-keeping purposes exactly the same method may be followed in the case of Debenture Stock as has been described in Chapter 32 as applicable to Shares, the wording, of course, being varied when necessary. A separate Register is kept containing the accounts of Debenture Holders, and the Ledger contains the Mortgage Debenture Stock Account shewing the total liability. Another method of dealing with an Issue is described on page 255.

It should be noted that the *Interest* upon Debentures or Debenture Stock is payable out of the *assets* of the Ltd. Co., whilst the *Dividend* upon Shares (Preference or Ordinary) is only payable out of *profits*.

It is most important to notice the varying conditions as to the repayment of the money borrowed upon Debentures or in exchange for Debenture Stock. A Company's Debentures may, according to its own regulations, be—

A.	Issued at *par* and	Repayable at *par*.	
B.	,, at a premium and	,,	at *par*.
C.	,, at a discount ,,	,,	at *par*.
D.	,, at par ,,	,,	at a *premium*.

A.—This means that the Company borrows, say, £100 and agrees to repay £100, thus involving no special treatment in the Accounts.

B.—This means that the Company receives, say, £105, issues a Debenture for £100, and thereby agrees to repay £100.

The £5 is given to the Company by the Applicant, and is not repayable; whilst it is a *profit* to the Company, it should not be carried to the Profit and Loss Account, but should be placed to a Reserve Fund Account.

C.—This means that the Company receives, say, £95, issues a Debenture for £100, and thereby agrees to repay £100.

A most important point arises here. By this method the Company has incurred a certain future liability for which it has received no actual value. If the period is, say, fifteen years, at the end of that time £5 becomes payable in addition to the £95 cash actually received. If a Reserve Fund Account exists, then such a deficit may be charged to that account, but if there is no Reserve, the Company should set apart a sum out of its annual profits which will amount at the end of the period to the total Discount. The example shewn on page 276 of the Accounts required to meet "D" applies equally to this case.

D.—This means that the Company receives, say, £100, issues a Debenture for £100, and thereby agrees to repay £105.

The student will see that in this case the position is exactly similar to "C": the Company incurs a certain future liability for which it has received *no* value. The matter should be treated in the same manner as "C."

Debenture Stock being a Loan to the Company, it is always open to the Company to *repay* the debt, or any portion thereof, before the date fixed for redemption arrives, provided that (1) the Holder is willing to be repaid, and (2) that the terms of the Trust Deed are not thereby broken. A Company accumulating surplus money, with a Debenture Stock in existence, in most cases cannot employ such surplus to better advantage than in paying off a portion of its Debentures.

Shares, on the other hand, cannot be so repaid. A Company is not allowed to reduce its Share Capital without obtaining by legal process the sanction of the Court to any such reduction, even if there are no liabilities to creditors. This extends also to the purchase by a Company of its own shares, which is, of course, equivalent to repaying Share Capital.

APPLICATION AND ALLOTMENT BOOK.—4½% Debenture Stock.

Number.	Name.	Address.	Occupation.	Applications.			Regrets.		Allotments.			Final Instalment.		Remarks.
				Amount applied for.	Amount paid on application.	Date Paid.	Amount returned to applicant.	Date when returned.	Amount Allotted.	Amount due on allotment making 50%	Date paid.	Amount due 50%	Date paid.	
1	Hy. Wilman	Appletree Rd., Malton	Farmer	800 0 0	80 0 0	1902 Feb 9		1902	700 0 0	270 0 0	1902 Feb 28	350 0 0	1902 M'y 1	
2	B. Oddy & Sons	Lombard Street, York	Bankers	10,000 0 0	1000 0 0	,, 9			1000 0 0					Paid in full Feb. 9th
3	A. Pearson (Miss)	The Villa, Leeds Road, York	Spinster	100 0 0	10 0 0	,, 9	10 0 0	Feb 23						
4	Richard Ney	9, Holden Terr., Hull	Shipbuilder	7500 0 0	750 0 0	,, 10			6000 0 0	2250 0 0	Mr. 1	3000 0 0	M'y 2	
5	James McNeill	The Rectory, Spilsford	Clerk in Holy Orders	1000 0 0	100 0 0	,, 11			1000 0 0	400 0 0	Feb 28	500 0 0	,, 4	
6	CliffordCourtnay	Pavement Walk, York	M.D.	1500 0 0	150 0 0	,, 11			1000 0 0	350 0 0	Mr. 2	500 0 0	,, 1	
7	Saml. Holder	16, Bargate, Darlington	Architect	100 0 0	10 0 0	,, 11	10 0 0	Feb 23						
8	Wm. Bennett	Alford St., Middlesbro'	Solicitor	2500 0 0	250 0 0	,, 11			2000 0 0	750 0 0	Mr. 4	1000 0 0	,, 2	
9	M. Aspden (Mrs.)	Grove House, Goole	Wife of Jno. Aspden	5000 0 0	500 0 0	,, 12			5000 0 0	2000 0 0	Mr. 1	2500 0 0	,, 1	
10	John Aspden	Do. do.	Gentleman	2500 0 0	250 0 0	,, 13			2500 0 0	1000 0 0	Mr. 9	1250 0 0	,, 1	
11	Fred Glover	Abbey Lane, Beverley	Art Teacher	1000 0 0	100 0 0	,, 13			800 0 0	300 0 0	Feb 28	400 0 0	,, 3	
				32,000 0 0	3200 0 0		20 0 0		20,000 0 0	7320 0 0		9500 0 0		

REGISTER OF DEBENTURE STOCK.

Name: HENRY WILMAN.

Address and occupation: Appletree Road, Malton; Farmer.

STOCK ACQUIRED.						STOCK TRANSFERRED.						BALANCE		
Date of Issue or Transfer.		Number of Allotment or Transfer.	Amount of Stock.			Date of Transfer.	Number of Transfer.	Amount of Stock.			Amount of Stock.			
			£	s.	d.			£	s.	d.	£	s.	d.
1902. May ...	1	1	700	0	0						700	0	0

Application and Allotment Book.—£20,000 of 4½% Debenture Stock is offered for public subscription, 10% payable on Application, 40% on Allotment, and 50% on 1st May. The total amount applied for is £32,000. The application of Miss Alice Pearson, £100, is declined, a "Letter of Regret" conveying that intimation is sent to her together with a cheque for £10 in return of Deposit; the same in the case of Samuel Holder. The other applicants receive allotment, in some cases to the full extent of the application, in others for a smaller amount. When the Allotment is less than the Application, the surplus paid on deposit goes to reduce the amount payable on Allotment: e.g., H. Wilman applies for £800 and is allotted £700: 50% due on £700 (for deposit and allotment) is £350, deducting the £80 paid Feb. 9th, leaves £270 due on allotment.

B. Oddy & Sons applied for £10,000 and paid £1,000 deposit: they receive an allotment of £1,000 only, therefore no further amount is payable by them. The figures may be summarised thus—

Paid Deposits on Application	£3,200	
Deduct amount refunded by Co. ...	20	3,180
Paid on Allotment		7,320
Paid Final Instalment		9,500
Total amount of Stock ...		£20,000

If this method is employed, the only entries in the Company's Account Books (except the Register of Debenture Stock) are the Cash received from and repaid to the various persons, which are entered in the Cash Book and posted direct to the Debenture Stock Account in the Ledger, leaving in that Account a nett balance of £20,000.

The same plan may be adopted with regard to an issue of Shares, and considerably reduces the amount of Book-keeping.

The Register of Debenture Stock is opened when the final instalments have been paid: it simply contains a record of the amounts held by each Stock-holder, and is *not* a Ledger.

EXERCISE 65.

On June 1st, 1902, Hawke & Co. Ltd. issued £50,000 4½% Mortgage Debentures at a premium of 10%.

Each £110 was payable by instalments of:—

£30 on 1st June (including Premium).
£80 on 1st July, Interest to accrue from dates of payment.

The instalments were duly received by the Company on the due dates.

Shew the Journal and Cash Book entries which should be made by the Company.

Prepare a statement shewing the amount of Interest payable 31st December, deducting Income Tax at 1s. 3d. in the £.

CHAPTER XXXIV

Capital and Revenue—Revenue Account—Fixed and Circulating Capital

One of the most interesting, and perhaps the most difficult, matters connected with Accounts in their higher stages is the distinction to be drawn between *Capital* and *Revenue*. In introducing this portion of the work to the Student it will be advisable to inquire more fully, in the first instance, into the meaning of the terms "Revenue" and "Revenue Account."

"The Profit and Loss Account is often called the Revenue Account, but it is perhaps better to keep the expression 'Revenue Account' as the generic term embracing all accounts dealing with income, earnings, or profit, against which appear the cost, expenses, and losses connected therewith. In a concern not conducted for profit the revenue transactions are embraced in an account called the Revenue Account or the Income and Expenditure Account."—(*Accounting in Theory and Practice:* Geo. Lisle, C.A., F.F.A.)

"A Revenue Account treats of Income and Expenditure, and shews the total profit earned or the total loss incurred during a certain period."—(*Accountant's and Book-keeper's Vade Mecum:* G. E. Stuart Whatley.)

"Losses and Gains are collected into one Account, usually called the Profit and Loss Account in trading concerns, and the Revenue Account in non-trading concerns."—(*Book-keeping:* Lawrence R. Dicksee, F.C.A.)

A Railway Company's Revenue Account contains on the *Cr.* side all its Income from Traffic, &c. (excluding dividends on shares held in other Companies), and on the *Dr.* side all its Expenditure for the maintenance and working of its lines, &c. (excluding Interest and Rents). The Balance is carried to a "Nett Revenue Account."

A Gas Company's Revenue Account contains on the *Cr.* side all its Income (except Interest on Investments), and on the *Dr.* side all its Expenditure for maintenance and working (excluding Interest). The Balance of this account is carried,

by direction of Parliament, to an account which bears the rather clumsy title of "Profit and Loss (Nett Revenue) Account."

In Part I. (page 3) of this work the term Revenue, as representing a *result*, is defined as "the nett surplus of earnings after deducting all expenditure incurred in connection with the conduct of Trading operations."

The above quotations and references will shew the Student that, whilst the mode of expression amongst writers differs considerably, the main idea underlying their utterances is the same, viz., that "Revenue" deals with Profits (or earnings) and Losses (or expenses), and coupling this with the extract from Part I., we may deduce the definition of a Revenue Account as being "an Account shewing how the nett surplus (or deficit) in connection with the conduct of Trading operations is arrived at." It should be noticed here that the actual heading, "Revenue Account," is very seldom met with in Books of Account, except in the case of large Companies; but the term Revenue, as distinguished from Capital, is constantly employed, and therefore it is necessary to gain some insight into its significance.

The following example may help to explain this more clearly. Suppose that Thomas Wayman, a manufacturer, has on 30th June, 1902, the following Balance Sheet:—

Liabilities.		Assets.	
To Creditors	£300	By Machinery ...	£200
,, Capital Account ...	1,200	,, Stock	400
		,, Debtors ...	800
		,, Bank	100
	£1,500		£1,500

His transactions up to 31st December, 1902, shew these results:—

Trading Account.

1902.			1902.		
July 1st.	To Stock ...	£400	Dec. 31st.	By Sales	...£1,700
Dec. 31st.	,, Purchases	1,100	,,	,, Stock ...	550
,,	,, Wages ...	300			
,,	,, Gross Profit	450			
		£2,250			£2,250

Profit and Loss Account.

1902.			1902.		
Dec. 31st.	To Expenses ...	£100	Dec. 31st.	By Gross Profit	£450
,,	,, Capital A/c Nett Profit	350			

These two Accounts together shew the result of his Trading operations, and may be collectively described as the Revenue Account. It is immaterial for this purpose how the accounts are divided, whether into Manufacturing Account, Goods Account, Trading Account, and Profit and Loss Account: they all fall under the "generic" term "Revenue," even though that word nowhere appears in the Books. If we examine the Account we shall find that it contains records of Receipts and Payments (these words must not be limited to "Cash" transactions) of *value* all arising out of the Trader's dealings with his *circulating capital.* It is now necessary to consider this term, and by so doing we shall see what the difference between "Capital" and "Revenue" really is.

Turning to the Balance Sheet of Thomas Wayman at 30th June, 1902, we see that the total Assets exceed the Liabilities by £1,200; this may be stated in a slightly different form:—

Machinery			£200 0 0
Stock	£400	...	
Debtors	800	...	
Bank	100	...	
	£1,300	...	
Deduct Creditors ...	300	...	1,000 0 0
Surplus or Capital		...	£1,200 0 0

The Capital of Thomas Wayman is represented by Assets of two classes, viz., *Fixed Capital* and *Circulating Capital* (or Floating Capital). The Fixed Capital is that portion of the Assets which is of a permanent character, not to be used up or exhausted in one or two years, but capable of being employed for a long period. In this example the Fixed Capital consists of Machinery, £200, which the Manufacturer uses over and over again, its value (or the greater part thereof) remaining intact after each operation. The Circulating Capital is that portion of the Assets which is constantly changing in *form*, but whose value remains in a new shape, and if the business is successful the value *grows* instead of diminishing. In this example the

Circulating Capital consists of the Stock of goods, the amount due from Debtors, and the Cash at Bankers, less the amount to be paid to Creditors, nett £1,000.

"Circulating Capital is only used *once* in order to fulfil any particular purpose; fixed Capital may *continuously* repeat the assistance which it lends to industry. A store of Food fulfils the function of Capital when it feeds labourers, but in feeding the labourers it is consumed; it cannot repeat the service which it has rendered. But the same looms, set in motion by the same steam-engine, will continue to weave cotton-cloth through a long succession of years; the same ploughs till the land for many successive crops."—(*Manual of Political Economy:* Henry Fawcett.)

Now what is the business in which Thomas Wayman is engaged, and in which this capital is employed? His business consists of (a) buying materials, employing and paying for labour, selling the manufactured goods, and paying the expenses incidental to such transactions; also (b) it includes the repeated using of his Machinery.

(a) These transactions mean in each case the *conversion of Circulating Capital.* (It will make the matter more easy to understand if we dismiss from our mind all ideas of *credit* dealings, which are really cash transactions whose *completion* is postponed:—"A sells goods to B; subsequently B pays cash"—think of this as equivalent to "A sells goods for cash.") In buying materials and employing labour cash is paid away, the materials are received and are consumed, the labour is also consumed, but the *value* reappears in a new form in the finished article; the article also disappears, but its value is again seen in the form of *Cash.* This means that the Circulating Capital changes again and again, and the Trader's desire is that these changes shall be as rapid and frequent as possible, as each should have the effect of increasing the total value.

(b) The continued use of *Fixed Capital* does not change its form or exhaust its value (except that Depreciation takes place, which will be dealt with later).

Thomas Wayman will probably find it necessary to alter the proportions of his Circulating and Fixed Capital, viz., by New Machinery in exchange for cash, &c. Therefore we may classify all the transactions as follows:—

1.—Conversion of Circulating Capital of one kind into another kind, as sale of Goods for Cash.

2.—Conversion of Circulating Capital into Fixed Capital, or *vice versa*, as purchase of New Machine, or sale of old one.

3.—Conversion of Fixed Capital of one kind into another kind, as exchange of a Machine for a Horse.

The Revenue Account is affected by—(1) If any profit or loss accrues: an instance of such a transaction without profit or loss would be the loan of £100 to a person who afterwards repays the same amount. But if he repaid £105, then Revenue takes credit for the £5 (Interest).

The Revenue Account is affected by—(2) and (3) if any profit or loss accrues:—

2.—The purchase of a new machine would not involve this, as the new article is presumably worth its cost price.

2.—The sale of a machine may result in a loss, which must be borne by Revenue.

3.—The exchange may result in a loss; if the machine was valued at £40 and the horse is only worth £30, Revenue must bear the loss.

The Revenue Account is affected by the diminution in value of any Machine (depreciation), and must bear this loss.

Therefore the question as between Capital and Revenue resolves itself into this:—

Value received.—Does this represent an addition to the value of the Fixed Capital, either by increasing any existing permanent asset, or by introducing a new permanent asset? If so, the amount is to be debited to *Capital*, i.e., *not* to the owner's Capital Account, but to the Asset Account representing such *Fixed Capital.*

Value parted with.—Does this represent a diminution of the value of the Fixed Capital, by reason of the disappearance of the whole or part of any permanent asset? If so, the amount is to be *credited* to *Capital*, i.e., *not* to the Owner's Capital Account, but to the Asset Account representing such Fixed Capital.

In the case of Depreciation, which is clearly value parted with, the amount is credited to the *Fixed Capital* and debited to Revenue.

A few examples are appended shewing the application of this principle:—A Manufacturer's Assets include Freehold Mill, Engine and two Boilers, Machinery, Warehouse and Office Furniture, Horses and Carts, Cash Deposit at Bank, Book Debts, a Patent (value standing £250), Cash in Hand, Stock of materials and finished goods, £500 Stock of a Water Company, and two Canal Barges. The following are transactions:—

Bought for Cash Land for a new Shed.	Land Account Dr. to Cash	Revenue account not affected.
Sold old Boiler (standing in Books at £200) for £50 cash, and paid cash for new one, costing £300.	Cash Dr. to Boilers Account £50.	Ditto.
	Revenue (P. & L. Account) Dr. to Boilers Account £150 for loss on sale.	
	Boilers Account Dr. to Cash £300.	Ditto.
Paid (in weekly wages) Mechanics for fixing new Boiler.	Boilers Account Dr. to Cash Account.	Ditto.
	If these were in the first case debited to Wages, the entry would now be Boilers Account Dr. to Wages, thus cancelling the charge to Revenue.	
Horse (in Books £40) died, and sold for 10s.	Cash Dr. to Horses Account 10s.	Ditto.
	Revenue (P. & L. Account) Dr. to Horses Account £39 10s. 0d. for loss on Horse.	
Bought new Horse £32.	Horses Account Dr. to Cash £32.	Ditto.
Sold half share in Patent for £200.	Cash Dr. to Patent Account £200 for sale of half share.	Ditto.
	This reduces the Book value of the remaining half share of Patent to £50; it may be argued that this should be increased to £200 by crediting Revenue *£150*, but the safer plan will be to retain it at £50 until it is actually realised.	
Lost a £10 Bank Note.	Revenue (P. & L. Account) Dr. to Cash £10 for note lost.	

Barge burnt (stood in Books £140); received from Fire Insurance Co. £90 in settlement.	Cash Account Dr. to Barges Account £90. Revenue (P. & L.) Dr. to Barges £50 for loss.	Revenue account not affected.
Received £200 from John Smith for allowing him to build his new premises across the street a storey higher than mine.	Cash Account Dr. to Freehold Land and Building Account £200. This should not be treated as a Profit, as it may probably reduce the value of my building.	Ditto.
Water Company's Stock becomes worth only £400.	Revenue Account Dr. to Water Company's Stock Account £100 for depreciation in value.	

EXERCISE 66.

State to what extent you consider the Revenue Account is affected by the following transactions of a Silk Manufacturing Company:—

(1) Boiler at 1st January, 1900, costs £1,000: depreciated annually at 31st December at 8% on original value. On 30th September, 1903, the boiler explodes; £600 is received from Boiler Insurance Company, and £900 is spent on a new Boiler.

(2) In consideration of £2,000 the Company allows a neighbouring Colliery Owner to "work" the coal lying under a vacant piece of their land adjoining the Factory.

(3) The Company spends £300 in experimenting and developing a new invention, and takes out a Patent for England, France, and Germany costing a further £200. The French patent is sold outright for £400.

(4) A Debt of £100 is written off as Bad in 1895. In 1902 the Debtor, having succeeded in business, pays the amount with interest at 4% per annum.

(5) Machinery costing £1,000 (and depreciated in Books down to £700) and Goods costing £1,500 are destroyed by Fire, and £2,200 is received in settlement from the Fire Insurance Company, viz., £800 for Machinery and £1,400 for Stock.

EXERCISE 67.

Explain briefly the meaning of "Goods Account," "Trading Account," "Profit and Loss Account," and "Revenue Account."

CHAPTER XXXV

Reserve Fund Account—Investment of Reserve Fund—Special Reserve

Assuming that the Profit and Loss Account shews, at the end of any given period of Trading, a credit balance, the Student knows that this balance is transferred in the ordinary course to the credit of the Capital Account, if the business belongs to a sole Trader, and to the credit of each Partner's Capital Account in the case of a Firm; in the case of a Limited Company, the profit is appropriated to the payment of a Dividend to the Shareholders and any surplus remaining is carried forward to the credit of the next year's Account. But the Trader, Firm, or Company are not necessarily obliged to deal with the Profit in that way, and they may if they choose transfer a portion of such a credit balance to a *Reserve Fund Account*. This course is more frequently adopted in the case of a Limited Company than in a Firm or private business, and the Book-keeping process is very simple. Suppose a Company for the year ending 30th June, 1902, has earned a profit of £2,000: the Share Capital paid up is £25,000. The Annual Meeting of Shareholders is held 31st July, 1902, when a Dividend of 5% per annum is declared and paid, and it is decided to place £500 to a Reserve Fund Account and to carry forward £250 to the next year's Profit and Loss Account. The Ledger will then stand as follows:—

Profit and Loss Account.

1902.		£	1902.		£
July 31	To Dividend A/c, 5%	1,250	June 30	By Nett Profit ...	2,000
,,	Reserve Fund A/c.	500			
,,	Balance forward ...	250			
			July 31	By Balance ...	£250

Dividend Account.

1902.		£	1902.		£
July 31.	To Sundry Shareholders... ...	£1,250	July 31	By P. & L. A/c. ...	£1,250

Reserve Fund Account.

1902.		£
July 31	By P. & L. A/c. ...	£500

As a means of becoming acquainted with the true nature and functions of "Reserves" and "Reserve Fund Accounts," it will be advisable to consider rather fully the following example:—John Wilkins is a retail Coal Dealer possessing £50 in cash, who on 1st January, 1902, becomes tenant of a small piece of waste land. By agreement with his Landlord his tenancy is fixed for three years, but after that he may have to give up the land if the owner requires it for other purposes. Wilkins erects upon the land a wooden coal-shed at a cost of £15, and commences trading. At the end of 1902 he makes up his Books, and decides to write off the "Shed" a depreciation of 10% = £1 10s. 0d.; after so doing the position of affairs is as follows:—

BALANCE SHEET, 31st December, 1902.

Liabilities.	£	s.	d.	Assets.	£	s.	d.
To Creditors	17	10	0	By Stock	35	0	0
,, Capital	78	10	0	,, Debtors	25	0	0
				,, Shed	13	10	0
				,, Scales and Weights	2	10	0
				,, Cash	20	0	0
	£96	0	0		£96	0	0

In considering this Balance Sheet, Wilkins reflects that he has now occupied the land for one year, and that in two years' time he *may* be obliged to quit that convenient spot; that the cost price of the Shed was far more for labour in constructing it than for actual materials, and that when he has to move it away it will probably be only worth £3 as old material. In 1902 he has "depreciated it" by £1 10s. 0d.; at the same rate by the 31st December, 1904, he will have reduced it in his Balance Sheet to £10 10s. 0d.; if then it has to be realised as old material for, say, £3, there will be a loss in 1904 of £7 10s. 0d. His difficulty is caused by the uncertainty of tenure: if he is undisturbed the Shed will serve its purpose admirably for more than ten years, and 10% is quite sufficient depreciation to write off annually, but at present the above risk remains. Wilkins therefore decides to anticipate this contingency by placing £2 10s. 0d. to a Reserve Fund Account before closing his Books for 1902. His accounts now stand thus:—

Dr. CAPITAL ACCOUNT. *Cr.*

1902			£	s.	d.	1902			£	s.	d.
Dec.	31	To Cash withdrawn	80	0	0	Jan.	1	By Cash	50	0	0
		,, Balance... ..	76	0	0	Dec.	31	,, Profit	106	0	0
			156	0	0				156	0	0
								By Balance ...	76	0	0

Dr. GOODS ACCOUNT. *Cr.*

1902			£	s.	d.	1902			£	s.	d.
Dec.	31	To Purchases ...	385	0	0	Dec.	31	By Sales	520	10	0
		,, Gross Profit ...	170	10	0		,,	,, Stock	35	0	0
			555	10	0				555	10	0
		To Stock	35	0	0						

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

1902			£	s.	d.	1902			£	s.	d.
Dec.	31	To Wages	42	0	0	Dec.	31	By Gross Profit ...	170	10	0
		,, Expenses ...	10	0	0						
		,, Discount ..	3	10	0						
		,, Rent, &c. ...	5	0	0						
		,, Depreciation of Shed	1	10	0						
			62	0	0						
		,, Balance, Nett Profit ...	108	10	0						
			170	10	0				170	10	0
Dec.	31	To Reserve Fund A/c	2	10	0	Dec.	31	By Balance ...	108	10	0
		,, Capital A/c ...	106	0	0						

BALANCE SHEET, 31st December, 1902.

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.
To Creditors	17	10	0	By Stock	35	0	0
,, Reserve Fund A/c	2	10	0	,, Debtors	25	0	0
,, Capital A/c	76	0	0	,, Shed	13	10	0
				,, Scales and Weights ...	2	10	0
				,, Cash	20	0	0
	96	0	0		96	0	0

The revised Balance Sheet shews that the Assets are of the same value as before, £96 0s. 0d., but the Capital Account is £76 0s. 0d. instead of £78 10s. 0d., the £2 10s. 0d. being placed as an imaginary or fictitious creditor—Reserve Fund Account.

Now, suppose that this operation is repeated in 1903 and 1904, and that in January, 1905, Wilkins has to seek a fresh place and build a new shed; the old one is pulled down and sold for £3; the result is :—

SHED ACCOUNT.

1902.		£	s.	d.	1902.		£	s.	d.
Jan. 1.	To Cash ...	15	0	0	Dec. 31.	By Depreciation	1	10	0
					1903.				
					Dec. 31.	,, ,,	1	10	0
					1904.				
					Dec. 31.	,, ,,	1	10	0
					1905.				
					Dec. 31.	,, Reserve Fund Account ...	7	10	0
						,, Cash (Wood Sold) ...	3	0	0
							£15	0	0

RESERVE FUND ACCOUNT.

1904.		£	s.	d.	1902.		£	s.	d.
Dec. 31.	To Shed Account	7	10	0	Dec. 31.	By P. & L. A/c.	2	10	0
					1903.				
					Dec. 31.	,, ,,	2	10	0
					1904.				
					Dec. 31.	,, ,,	2	10	0

The contingency against which this Reserve Fund Account was "raised" having become a fact, no further loss falls upon 1904 than 1902 and 1903 had to bear. If the Owner of the land had agreed that Wilkins should remain in occupation, then the Reserve Fund Account would not be required, and, as Wilkins would *know that* on 31st December, 1904, only the 1902 and 1903 entries of £2 10s. 0d. each would be made, and on 31st December, 1904, the £5 0s. 0d. would be debited to Reserve Fund Account and credited to Capital Account.

The Student will see that the only effect of the above and of the creation of the Reserve Fund Account has been to spread over a period of years a loss which otherwise would have fallen wholly upon one year only.

We must carry our consideration of this example a little further in order to elucidate an important point. When on 31st December, 1902, Wilkins credited his Reserve Fund Account with £2 10s. 0d., he stopped there; he did not place £2 10s. 0d. in cash in a separate Bag and say, "this is my Reserve Fund!" His Assets remained undisturbed, and he used them for the general purposes of his business just as though the Reserve Fund Account did not exist. But he might have said to himself, "If I have to sell this Shed at the end of the three years, it will be as well for me to set aside some money which will help me to build or buy a new Shed when that time comes." Acting upon this idea, on 31st December, 1902, he pays into the Savings Bank £2 10s. 0d.; *he invests his Reserve Fund outside his business*, repeating this in 1903 and 1904. The deposit carries interest at 2½% per annum, so that the Account stands—

SAVINGS BANK (RESERVE FUND INVESTMENT ACCOUNT).

1902.		£	s.	d.	1903.		£	s.	d.
Dec. 31.	To Cash ...	2	10	0	Dec. 31.	By Cash, Interest	0	1	3
1903.					1904.				
Dec. 31.	,, 1 Year's Int.	0	1	3	Dec. 31.	,, ,, ,,	0	2	6
	,, Cash ...	2	10	0					
		5	1	3	Dec. 31.	,, Balance ...	7	10	0
1904.									
Dec. 31.	,, 1 Year's Int.	0	2	6					
	,, Cash ...	2	10	0					
		7	13	9			£7	13	9
	To Balance ...	£7	10	0					

He has withdrawn (and treated as Profit) the Interest produced by this Investment, and at 31st December, 1904, £7 10s. 0d. is at the Bank, which, with £3 which he obtains for sale of old wood makes, £10 10s. 0d. cash, equal to the amount at which his Shed now stands in the Balance Sheet.

This separate and distinct Asset, £7 10s. 0d., is the "Fund"—the "Reserve Fund," and is clearly distinguishable from the Reserve Fund Account. Much confusion has arisen with regard to these terms, and they are frequently quoted in a wrong sense. In the Ledger the "Reserve Fund Account" is always a *credit* balance or imaginary liability (undivided profit), and the *Reserve*

Fund is always a *debit* balance or *asset*, exactly in the same sense that the Capital *Account* is a credit and the Capital *Assets* are debits.

The Student should notice that if the interest on the Investment had been allowed to accumulate, and had *not* been treated as profit, then the Interest would be credited to the Reserve Fund Account, so that in 1903 only £2 8s. 9d. need be charged to P. & L. a/c, and in 1904 £2 7s. 6d., to make up the £7 10s. 0d. But the *nett* result to the Profit and Loss Account would be exactly the same whichever course is adopted.

The object of the Reserve in the example shewn above is a distinct one, and such a Reserve is created for a special purpose and is a *Special Reserve;* but it is not always the case that any particular contingency is contemplated when a Reserve Fund Account is opened; it may be simply a prudent setting aside of profits for *any* future need; in the latter case it is described as a *General Reserve.* An illustration of a Special Reserve is met with in the case of a large Company which, instead of insuring its property against Fire in the ordinary way, sets aside an annual sum to the credit of an Insurance Fund Account, to which the cost of any damage by fire is to be charged. This is a Reserve which, of course, is only needed in case of such loss: if a fire does not occur, when the business is brought to an end and the property sold, the Insurance Fund Account represents so much additional Profit to be divided amongst the Shareholders.

Reserve for Equalising Dividends.—This is a Reserve Fund Account created for the special purpose indicated by its title; it is not so often met with now as formerly. The idea of those advocating it is that it is better for a Company to pay a Dividend at the same rate each year than to pay a fluctuating Dividend, rising or falling according to the increase or decrease in Profits earned each year. When required, this Reserve Account is *debited* and the Dividend Account is *credited* with the amount needed to make up the Dividend for any half-year or year.

The subject of the *Investment* of Reserve Fund is one which continually crops up in connection with Limited Companies' Balance Sheets. The question frequently asked is, "Where is the Reserve Fund?" and in the great majority of cases the answer is that it is merged into and is part of the general Assets of the

Company, and not separately invested. As to the need of such setting apart, no general rule can be laid down; the question entirely depends upon the financial conditions of the business. If the Company is borrowing money at, say, 5% from its Bankers, it would be foolishness to invest its Reserve Fund separately at, say, 3% or 3½%. And if the Company is *not* borrowing, but can use all the cash at its disposal profitably by taking full discounts for prompt payment, it would be equally unwise to lock up part of its resources at 3% or 3½% interest. It is by such considerations as these that the Directors should be guided in deciding as to "Investment of a Reserve outside the business."

EXERCISE 68.

Prepare a Balance Sheet of Colin Smith & Co. Limited from the following materials:—

The authorised Share Capital is £100,000, in 100,000 Shares of £1 each, of which 50,000 have been issued and 18s. called up.

	£	s.	d.
The authorised Mortgage Debenture issue is ...	100,000	0	0
Share Capital paid up	44,975	0	0
Calls in arrears	25	0	0
Cost of Patents	5,000	0	0
Mortgage Debentures: 250 Bonds of £100 each, bearing interest at 5% per annum	25,000	0	0
Calls paid in advance	200	0	0
Cash at Bankers	1,325	0	0
Cash in hand	117	0	0
Trade Creditors...	5,375	0	0
Trade Debtors	16,150	0	0
Stock in hand	11,220	0	0
Reserve Fund Account	8,000	0	0
Investments on account of Reserve Fund	7,000	0	0
Depreciation to be written off Plant and Machinery	525	0	0
Reserve for Bad Debts...	650	0	0
Suspense Account, being provision for a claim against the Company not yet admitted ...	500	0	0
Plant and Machinery	26,020	0	0
Freehold Land and Building	25,435	0	0
Interim Dividend paid...	2,300	0	0
Profit and Loss Account, balance remaining after payment of Interim Dividend	7,042	0	0

EXERCISE 69.

A Limited Company's Balance Sheet at 31st December, 1902, stands:—

Capital and Liabilities.		Assets.	
1,000 £10 6% Preference Shares	£10,000	Land and Buildings ...	£27,000
2,000 £10 Ordinary Shares	20,000	Machinery	8,000
Debenture Stock, 4% ...	15,000	Investments	10,000
Creditors	2,000	Bank	3,000
Reserve Fund Account ...	5,000	Stock	1,000
Revenue Account	2,000	Debtors	5,000
	£54,000		£54,000

By 30th June, 1903, the Assets are realised: Land and Buildings are sold for £32,000, and there are losses as follows:—On Machinery £2,000, Stock £400, and Debtors £500; the Investments yield £10,300. After paying the Creditors, the Debentures (including Interest to 30th June, 1903), the Preference Dividend for half-year ending 30th June, 1903, and £800 expenses, make up the accounts shewing how the Reserve Fund Account and Revenue Account are affected, and how much the Ordinary Shareholders will receive.

CHAPTER XXXVI

Sinking Fund—Redemption of Debentures—Leasehold

Perhaps the item around which gathers the largest element of mystery in Accounts is the "Sinking Fund," chiefly because of the variety of uses to which this expression is turned, and also because of its curious name.

A Sinking Fund is cash (or an investment equivalent to cash) which is set apart by instalments at regular intervals for the purpose of extinguishing a specific Liability payable at some future date, or for the replacement of some asset which will lose its value by a certain future date. Its peculiar name originates in the idea that such a gradual setting apart of cash has the effect of reducing or sinking the amount which at the fixed future date the Assets of the undertaking or business will be called upon to provide.

The Student will understand this better if he notes the clear distinction between a Reserve Fund and a Sinking Fund. A Reserve Fund is an asset existing for the purpose of providing for a *contingent* or *uncertain* loss, either of a special or general nature. A Sinking Fund is an asset existing for the purpose of providing for the payment of a certain and definite liability, or extinguishing a certain future loss.

The Reserve Fund, as already explained, may either be an undivided part of the general assets of the business, or it may be invested in a separate form; but a Sinking Fund must *always* be a separate and distinct asset.

The Sinking Fund may exist for the following purposes:—

(A)—Payment of a Liability for which actual value has been received.

(B)—Payment of a Liability for which *no* actual value has been received.

(C)—Replacing a specific Asset.

Examples:—

(A)—Sinking Fund for repayment of Debenture Stock issued at par, and repayable at the end of 15 years at par.

(B)—Sinking Fund for payment of premium on Debenture Stock (issued at par, and repayable at the end of 15 years at 5% premium).

(C)—Sinking Fund for providing money to replace the cost of a Lease, upon expiry of an existing one.

A full illustration of the working of Example (B) will apply to the Sinking Fund in each case.

Suppose a Company borrows £30,000 by issue of Debenture Stock at par on 1st January, 1902, repayable at the end of 15 years at 5% premium. On the 31st December, 1916, £1,500 is to be repaid (in addition to the principal sum, £30,000). The £1,500 does not appear in the Company's Books in the meantime, and no actual value has been received for it, but it becomes a distinct and specific Liability at the end of the 15 years. Of course, it would not be fair to leave the Profit and Loss Account for 1916 to bear the whole of this charge, and the amount is therefore spread over the whole period in this way:—On 31st December, 1902, the Profit and Loss Account is debited £80 13s. 0d., and a Debenture Premium Account is opened and credited £80 13s. 0d. This is repeated each year until 31st December, 1916, thus making a total of £1,209 15s. 0d. debited to Profit and Loss Account and credited to Debenture Premium Account during the 15 years.

Also on 31st December, 1902, £80 13s. 0d. is taken out of the cash and invested (say, with the "Investment Trust Limited") at 3% interest. On 31st December, 1903, the year's interest on £80 13s. 0d., viz., £2 8s. 4d., is *credited* to the Debenture Premium Account and debited to the Investment Account, the interest being added to principal. This is repeated each year up to 31st December, 1915, £80 13s. 0d. being invested annually and the money allowed to accumulate at compound interest. Nothing is invested in 1916, because the Fund is required at the end of that year.

Looking at the Debenture Premium Account, we find that on 31st December, 1916, it shews a credit total of £1,500, made up of—

Transfers from Profit and Loss Account ...	£1,209	15	0
Interest accumulated...	290	5	0
	£1,500	0	0

On 31st December, 1916, this sum is represented by—

Principal sums invested with the Investment Trust Limited	£1,129	2	0
Accumulated Interest do. do.	290	5	0
	£1,419	7	0
* Balance to be taken out of cash, 31st December, 1916	80	13	0
	£1,500	0	0

(* It would not be necessary to invest this sum, as it would be withdrawn the same day.)

So that on 31st December, 1916, the amount of the *Premium*, £1,500, is paid to the Debenture Holders, and the money is obtained by withdrawing the Investment and Interest, £1,419 7s. 0d., and adding £80 13s. 0d. out of Cash (as the last instalment).

The Sinking Fund in this case is the Investment set aside and allowed to accumulate at compound interest. By calculation or reference to Tables £80 13s. 0d. is found to be the annual sum required to produce the required total, taking interest at 3%.

If it is desired to accumulate a Sinking Fund to meet the amount of the *Stock* (apart from the *Premium*), of course this only means investing a larger annual sum, and involves *no* debit to the Profit and Loss Account, the £30,000 being from the first a *liability* in the Ledger. It is not often practicable for a Company to accumulate a surplus fund in so short a period as this for repayment of the Principal Debt. If the business is a sound one, as a rule it is possible to borrow the whole or part of the money *again* by means of a new issue of Debentures. The *Premium*, however, should be provided for in the way indicated, and the point of especial importance is that a fair distribution of this Loss involves an Annual Charge upon the Profit and Loss Account.

Dr. DEBENTURE PREMIUM ACCOUNT. *Cr.*

		£	s.	d.				£	s.	d.
191 6 Dec 31	To Cash Debenture Holders...	1500	0	0	190 2 Dec. 31	By Profit and Loss A/c		80	13	0
					190 3 Dec. 31	,, Int. on Investment		2	8	4
						,, ,, Profit and Loss A/c		80	13	0
								163	14	4
					190 4 Dec. 31	,, Int. on Investment		4	18	3
						,, ,, Profit and Loss A/c		80	13	0
								249	5	7
					190 5 Dec. 31	,, Int. on Investment		7	9	10
						,, ,, Profit and Loss A/c		80	13	0
								337	8	5
					190 6 Dec. 31	,, Int. on Investment		10	2	3
						,, ,, Profit and Loss A/c		80	13	0
								428	3	8
					190 7 Dec. 31	,, Int. on Investment		12	16	11
						,, ,, Profit and Loss A/c		80	13	0
								521	13	7
					190 8 Dec. 31	,, Int. on Investment		15	13	0
						,, ,, Profit and Loss A/c		80	13	0
								617	19	7
					190 9 Dec. 31	,, Int. on Investment		18	10	9
						,, ,, Profit and Loss A/c		80	13	0
								717	3	4
					191 0 Dec. 31	,, Int. on Investment		21	10	3
						,, ,, Profit and Loss A/c		80	13	0
								819	6	7
					191 1 Dec. 31	,, Int. on Investment		24	11	7
						,, ,, Profit and Loss A/c		80	13	0
								924	11	2
					191 2 Dec. 31	,, Int. on Investment		27	14	8
						,, ,, Profit and Loss A/c		80	13	0
								1032	18	10
					191 3 Dec. 31	,, Int. on Investment		30	19	9
						,, ,, Profit and Loss A/c		80	13	0
								1144	11	7
					191 4 Dec. 31	,, Int. on Investment		34	6	9
						,, ,, Profit and Loss A/c		80	13	0
								1259	11	4
					191 5 Dec. 31	,, Int. on Investment		37	15	9
						,, ,, Profit and Loss A/c		80	13	0
								1378	0	1
					191 6 Dec. 31	,, Int. on Investment		41	6	11
						,, ,, Profit and Loss A/c		80	13	0
		1500	0	0				1500	0	0

THE INVESTMENT TRUST LIMITED.
SINKING FUND FOR DEBENTURE PREMIUMS.

		£	s.	d.			£	s.	d.
1902 Dec. 31	To Cash	80	13	0	1916 Dec. 31	By Cash ...	1419	7	0
1903 Dec. 31	,, Interest, 1 year at 3%	2	8	4					
	,, ,, Cash	80	13	0					
		163	14	4					
1904 Dec. 31	,, Interest, 1 year at 3%	4	18	3					
	,, ,, Cash	80	13	0					
		249	5	7					
1905 Dec. 31	,, Interest, 1 year at 3%	7	9	10					
	,, ,, Cash	80	13	0					
		337	8	5					
1906 Dec. 31	,, Interest, 1 year at 3%	10	2	3					
	,, ,, Cash	80	13	0					
		428	3	8					
1907 Dec. 31	,, Interest, 1 year at 3%	12	16	11					
	,, ,, Cash	80	13	0					
		521	13	7					
1908 Dec. 31	,, Interest, 1 year at 3%	15	13	0					
	,, ,, Cash	80	13	0					
		617	19	7					
1909 Dec. 31	,, Interest, 1 year at 3%	18	10	9					
	,, ,, Cash	80	13	0					
		717	3	4					
1910 Dec. 31	,, Interest, 1 year at 3%	21	10	3					
	,, ,, Cash	80	13	0					
		819	6	7					
1911 Dec. 31	,, Interest, 1 year at 3%	24	11	7					
	,, ,, Cash	80	13	0					
		924	11	2					
1912 Dec. 31	,, Interest, 1 year at 3%	27	14	8					
	,, ,, Cash	80	13	0					
		1032	18	10					
1913 Dec. 31	,, Interest, 1 year at 3%	30	19	9					
	,, ,, Cash	80	13	0					
		1144	11	7					
1914 Dec. 31	,, Interest, 1 year at 3%	34	6	9					
	,, ,, Cash	80	13	0					
		1259	11	4					
1915 Dec. 31	,, Interest, 1 year at 3%	37	15	9					
	,, ,, Cash	80	13	0					
		1378	0	1					
1916 Dec. 31	,, Interest, 1 year at 3%	41	6	11					
		1419	7	0			1419	7	0

Premium on Lease.—A lump sum having been paid in exchange for a Lease for a fixed term, the amount is debited to a "Leasehold Account," and, of course, each year this Asset becomes of less value. When an annual Rent is also payable under the Lease, the person to whom the Lease is granted (Lessee) often has an "option" or choice of renewing it for a further period after the term has expired. As a rule, it is best to ignore that option or possibility of renewal, and treat the Asset as one which at the end of the term, say 15 years, will be of *no value.* Suppose that on 1st January, 1902, £1,500 is paid for a Lease for a period of 15 years; by 31st December, 1916, this Asset's value entirely disappears, and must be charged to revenue. There are three ways of treating this:—

First.—The Revenue Account may be debited £100 each year as "Depreciation on Lease," the Lease Account being credited. This, of course, extinguishes the latter account by 31st December, 1916. This is the method usually adopted, although the following are more correct:—

Second.—The Lessee may consider that the £1,500, if invested otherwise, would yield interest, say, 3%, and the first year he may charge the Lease Account £45 as Interest, crediting Interest Account. The Asset is, however, still diminishing each year, and the Interest to be debited must therefore diminish also. It is necessary to refer to Tables (Inwood's) to find the amount to be written off each year in order to extinguish both Principal and added Interest in 15 years. This annual amount is £125 13s. 0d. in this case, as shewn by the fully worked Example, page 280. It is usually described as the "Rent," and is debited to Revenue Account.

Third.—The Lessee may consider it advisable to accumulate a Sinking Fund by investing at Compound Interest such a sum as will amount to the cost of the Lease in 15 years. This is effected (as in the case of the Debenture Premium) by investing £80 13s. 0d. each year at, say, 3%; Revenue Account is debited each year £80 13s. 0d., and the Lease Account is credited with that sum. The Lease Account is also credited with the Interest annually, the result being that this Account is finally extinguished on 31st December, 1916, and there is a distinct fund at call for the purpose of purchasing a new Lease, if necessary. The following Account will shew how the Lease is dealt with:—

Dr. LEASEHOLD ACCOUNT. *Cr.*

19			£	s.	d.	19			£	s.	d.
Jan.	1	To Cash	1500	0	0	Dec.	31	By Revenue A/c.	80	13	0
						19					
						Dec.	31	„ Interest ...	2	8	4
						„	„	„ Revenue A/c.	80	13	0
						19			163	14	4
						Dec.	31	„ Interest ...	4	18	3
						„	„	„ Revenue A/c.	80	13	0
								And so on until Dec. 31st, 1916.	249	5	7
			1500	0	0				1500	0	0

Dr. LEASEHOLD ACCOUNT. (SECOND METHOD.) *Cr.*

		£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.
1902								1902							
Jan. 1	To Cash...	1500	0	0				Dec. 31	By Rent	125	13	0			
Dec. 31	,, 3% Interest ...	45	0	0	1545	0	0		,, Balance	1419	7	0	1545	0	0
1903								1903							
Jan. 1	,, Balance	1419	7	0				Dec. 31	,, Rent	125	13	0			
Dec. 31	,, 3% Interest ...	42	11	8	1461	18	8		,, Balance	1336	5	8	1461	18	8
1904								1904							
Jan. 1	,, Balance	1336	5	8				Dec. 31	,, Rent	125	13	0			
Dec. 31	,, 3% Interest ...	40	1	9	1376	7	5		,, Balance	1250	14	5	1376	7	5
1905								1905							
Jan. 1	,, Balance	1250	14	5				Dec. 31	,, Rent	125	13	0			
Dec. 31	,, 3% Interest ...	37	10	5	1288	4	10		,, Balance	1162	11	10	1288	4	10
1906								1906							
Jan. 1	,, Balance	1162	11	10				Dec. 31	,, Rent	125	13	0			
Dec. 31	,, 3% Interest ...	34	17	7	1197	9	5		,, Balance	1071	16	5	1197	9	5
1907								1907							
Jan. 1	,, Balance	1071	16	5				Dec. 31	,, Rent	125	13	0			
Dec. 31	,, 3% Interest ...	32	3	1	1103	19	6		,, Balance	978	6	6	1103	19	6
1908								1908							
Jan. 1	,, Balance	978	6	6				Dec. 31	,, Rent	125	13	0			
Dec. 31	,, 3% Interest ...	29	7	0	1007	13	6		,, Balance	882	0	6	1007	13	6
1909								1909							
Jan. 1	,, Balance	882	0	6				Dec. 31	,, Rent	125	13	0			
Dec. 31	,, 3% Interest ...	26	9	2	908	9	8		,, Balance	782	16	8	908	9	8
1910								1910							
Jan. 1	,, Balance	782	16	8				Dec. 31	,, Rent	125	13	0			
Dec. 31	,, 3% Interest ...	23	9	8	806	6	4		,, Balance	680	13	4	806	6	4
1911								1911							
Jan. 1	,, Balance	680	13	4				Dec. 31	,, Rent	125	13	0			
Dec. 31	,, 3% Interest ...	20	8	5	701	1	9		,, Balance	575	8	9	701	1	9
1912								1912							
Jan. 1	,, Balance	575	8	9				Dec. 31	,, Rent	125	13	0			
Dec. 31	,, 3% Interest ...	17	5	4	592	14	1		,, Balance	467	1	1	592	14	1
1913								1913							
Jan. 1	,, Balance	467	1	1				Dec. 31	,, Rent	125	13	0			
Dec. 31	,, 3% Interest ...	14	0	3	481	1	4		,, Balance	355	8	4	481	1	4
1914								1914							
Jan. 1	,, Balance	355	8	4				Dec. 31	,, Rent	125	13	0			
Dec. 31	,, 3% Interest ...	10	13	4	366	1	8		,, Balance	240	8	8	366	1	8
1915								1915							
Jan. 1	,, Balance	240	8	8				Dec. 31	,, Rent	125	13	0			
Dec. 31	,, 3% Interest ...	7	4	4	247	13	0		,, Balance	122	0	0	247	13	0
1916								1916							
Jan. 1	,, Balance	122	0	0											
Dec. 31	,, 3% Interest ...	3	13	0	125	13	0	Dec. 31	,, Rent				125	13	0

The Student should notice how the Revenue Account is finally affected to exactly *the same* extent by all three methods :—

(1)	Revenue Account is in 15 years debited with Depreciation ...	£1,500	0	0
(2)	Revenue Account is in 15 years debited with Rent	£1,884	15	0
	And is credited with Interest ...	384	15	0
		£1,500	0	0
(3)	Revenue Account is in 15 years debited with Depreciation ...	£1,209	15	0
	And also *loses* interest on the sums set aside to the Sinking Fund (if this money had been retained in the general assets of the business it would have presumably earned at least 3%) ...	290	5	0
		£1,500	0	0

Leases are often granted for a term of 999 years. There are many in existence which have several hundreds of years unexpired. Such a Leasehold property is practically equivalent to a Freehold (except that a Ground-rent is in some cases payable annually). Theoretically, it would be correct, but somewhat pedantic, to depreciate such an Asset, costing, say, £1,000, at the rate of about £1 per annum, and it would be rather difficult to invest the annual Instalments of a Sinking Fund for that purpose !

EXERCISE 70.

On 1st January, 1902, A. B. purchases a Patent which has five years to run for £1,000. He makes up his Books to 31st December each year and wishes to write off the cost out of Profits and also to accumulate a fund to replace the outlay. Prepare the requisite accounts, taking his Profits for the five years as being £1,800, £1,500, £1,600, £1,900, and £1,750 respectively, and assuming interest at 3% Free of Income Tax.

EXERCISE 71.

A person on 1st October, 1902, borrows from a Building Society £2,000 which is repayable in thirteen annual Instalments of £200 each, to include Principal and Interest, a small balance being paid in the fourteenth year. Prepare an account shewing the repayments and Annual Charge for Interest (4 % per annum).

CHAPTER XXXVII

Depreciation

The subject of *Depreciation* is of great importance in connection with the Balance Sheets of most businesses. The Accounts should be records of *Facts*, and the results of all the Book-keeping are to be disclosed in the Balance Sheet, which should state the actual facts. The true valuing of Assets is, of course, of the utmost consequence, and to arrive at such true value, Depreciation has to be reckoned with.

This term in its broad sense may be taken to mean Reduction of Value, whether caused by wear and tear of the article or by a fall in price. In order to form a better idea of its application, the word Depreciation should not be limited to its meaning as applied to a *Machinery* Asset only, but its general operation should be considered. Assets are of many kinds. Which are subject to this Reduction or Depreciation? Are there any varieties of Assets which are exempt? Let us consider the following Classes in order:—

1.—Cash.
2.—Debts.
3.—Stock-in-Trade.
4.—Horses, Carts, &c.
5.—Shares.
6.—Ships.
7.—Machinery.
8.—Fixtures and Furniture.
9.—Patents, Trade Marks, Copyrights.
10.—Goodwill.
11.—Leasehold.
12.—Land and Buildings (Freehold or Copyhold).

1. *Cash.*—By this is here meant simply Coin: this is the only asset which may be described as non-depreciating, although the last holder of gold coin of light weight has to bear the loss when the coin is ultimately withdrawn from circulation by reason of its "wear and tear."

All the remaining classes of Assets may be subject to Depreciation:—

2. *Debts.*—These (for present purposes) include Paper Money (Bills, Cheques, Notes), also Loans and Book Debts: the value of all these depends upon the financial status of the Debtor, and that must be taken into consideration, unless the debt is covered by deposit of an adequate security (goods, guarantee, &c.).

The prudent Trader will provide in his Balance Sheet not only for *known* cases of insolvency on the part of his Debtors, but also for loss which may accrue in the case of apparently good accounts: the *exact* value of these cannot be fixed, but some allowance can be made. The term "Bad Debts" really means "Depreciation of Book Debts," although the former expression is invariably used.

3. *Stock in Trade.*—Too much attention can scarcely be devoted to the fixing of the value of this asset: upon this point often hinges the result of the whole Trading Account. The following simple example shews how Depreciation affects this item, although the word itself is not employed in the Goods Account.

Dr. GOODS ACCOUNT. Cr.

1902.		£ s. d.	1902.		£ s. d.
Jan. 1	To Stock 20 Pieces Cloth @ £10 ...	200 0 0	May 31	By Sale: 10 Pieces @ £12 ...	120 0 0
Dec. 31	,, Gross Profit	10 0 0	Dec. 31	,, Stock: 10 Pieces@£9	90 0 0
		£210 0 0			£210 0 0

or

Dr. GOODS ACCOUNT. Cr.

1902.		£ s. d.	1902.		£ s. d.
Jan. 1	To Stock, 20 Pieces Cloth @ £10 ...	200 0 0	May 31	By Sale: 10 Pieces @ £12 ...	120 0 0
Dec. 31	,, Gross Profit on Sales (10 Pieces @ £2)	20 0 0	Dec. 31	,, Depreciation on 10 Pieces unsold at £1...	10 0 0
				,, Stock, 10 Pieces @ £9	90 0 0
		£220 0 0			£220 0 0

PROFIT AND LOSS ACCOUNT.

1902.		£ s. d.			£ s. d.
Dec. 31	To Depreciation on Stock ...	10 0 0	Dec. 31	By Gross Profit on Sales ...	20 0 0
,, 31	To Balance Profit	10 0 0			
		£20 0 0			£20 0 0

The above accounts, if compared, will explain themselves. The actual profit is £10, consisting of £20 Profit on Goods sold, *less* £10 loss (depreciation) on Goods unsold. The first Goods Account is, of course, the ordinary method, and the effect of Depreciation on Stock is to reduce the Gross Profit.

To take Goods into Stock at the selling price, or at any increase on Cost price, is to anticipate future Profits, which may never be realised. *Old* Stock is often a difficulty, and should be promptly depreciated at a liberal rate.

4. *Horses, Carts, &c.*—This is an Asset whose true value is easier to ascertain. There are two methods of dealing with the Account—(1) by Annual Valuation or taking Stock; (2) by regular Depreciation. By the first method, a list is prepared at the end of the year shewing the Horses, Carts, Harness, &c., on hand at their estimated *present* value. This value is carried down in the Ledger Account (as Stock), and any balance is transferred to the P. & L. a/c, as below :—

Dr.		Horses, Carts, &c.				Cr.		
1902.			1902.			£	s.	d.
Jan. 1	To Balance ...	... £100	Dec. 31.	By Stock	...	105	0	0
Feb. 18	,, Cash, Horse	... 25	,,	,, P. & L. A/c. Depreciation		20	0	0
		£125				£125	0	0
1903.								
Jan. 1	To Balance ...	... £105						

By the second method, annual Depreciation of, say, 20% is written off the original balance, leaving still £105 as the value on 1st January, 1903. No. 2 method saves the trouble of the annual valuation, but No. 1 method is more likely to ensure accuracy. In a large business it is better to keep "Horses" in a separate account, apart from "Rolling Stock," which may depreciate at a different rate.

5. *Shares* and other Investments are certainly subject to Depreciation (or, in some cases, to *Appreciation*), and if the value appears to have permanently fallen, the loss should be written off. Certain classes of shares, of course, fluctuate in price according to the state of the Market. It is not, however, usually considered necessary to bring the book-value down to (or *up* to) the Stock

Exchange value when that difference is expected to be only a temporary one. If an Investment yields a high rate of dividend, the investor will not act unwisely if he apply a portion of the dividend to writing down the cost of the Asset.

6. A *Ship* is certainly not a permanently enduring Asset, and provision should be made annually for the loss. This is apart from the question of Insurance against wreck, fire, &c., and the rates must vary, according as the vessel is a Sailing Ship, "Tramp" Steamship, or first-class Liner.

7. *Machinery.*—This is the Asset to which the term Depreciation is most frequently applied. Many matters have to be considered when fixing the rate and mode of treating these accounts, especially the extent to which the Machinery is kept in order out of Revenue by expenditure on Repairs and Renewals. The most important question is, How long will the Machine last before it becomes only of the value of old metal or "scrap"? There is also the possibility of the Machine becoming obsolete by the introduction of a new invention or process of manufacture. Suppose that Machinery cost £2,000, and by judicious repairing may fairly be expected to be worth £250 at the end of 20 years, there remains £1,750 to provide out of Revenue, in addition to the annual cost of Repairs. Assuming that the cost of Repairs will become heavier year by year, it is decided to depreciate *not* by equal annual sums, but upon the diminishing value. By calculation it is found that £2,000 depreciated annually on the diminishing value at the rate of 10% per annum leaves a remainder of £242 at the end of the twentieth year. Therefore, this Asset must be depreciated 10% per annum in order to reduce it in the Accounts to its approximate value at the end of the 20 years.

If the Repairs do not enter so largely into the question, then it will be more equitable to write off £87 10s. 0d. each year, making a total of £1,750, and leaving £250 as the value at the end of the period.

The term "Machinery" is here used to include Engines, Boilers, Plant, and Machinery of all kinds, fixed and loose. It is, of course, impossible to lay down any definite rules here as to the method to be observed, and the subject can only be discussed in its general bearings. One Machine may be repaired and renewed

(out of Revenue) so thoroughly that it lasts 100 years, whilst a Boiler, as a rule, wears out in a certain time, and cannot be repaired piecemeal.

8. *Fixtures and Furniture.*—This Asset is generally of a steadily depreciating nature, and an allowance of 5% is usually considered sufficient to be written off annually.

9. *Patents, Trade Marks, Copyrights, &c.*—When an asset of this nature is purchased, the cost should be gradually written off by equal annual instalments according to its estimated "life"; although a Patentee can often, upon the expiration of his Patent, protect himself by obtaining a new Patent for an improvement upon his own process, yet it is well that the original cost should be extinguished as indicated above.

10. *Goodwill.*—This asset seldom appears in the Balance Sheet of a private trader or Partnership Firm, but is found to bulk largely in the accounts of Limited Companies. It is, as a general rule, not considered directly subject to Depreciation, but the general Reserve Fund Account is looked upon as being equivalent to a writing-down of this Asset.

11. *Leasehold Property.*—This asset is dealt with in Chapter XXXVI. (Sinking Fund).

12. *Freehold Land and Buildings.*—The question of depreciation depends upon the locality and the nature and adaptability of the Buildings: if adequate Repairs are carried out, and charged to Revenue, usually a small rate of Depreciation is sufficient to cover the loss on Buildings, say 1½% per annum, and in many cases this is counterbalanced by "appreciation" in the value of the Land, especially in the vicinity of large towns. For most purposes "Copyhold" may be treated as "Freehold" property.

MACHINERY ACCOUNT. (Example 1.)

Dr. *Cr.*

		£	s.	d.			£	s.	d.
1901 Jan. 1	To Sundry Purchases	2000	0	0	1901 Dec. 31	By Depreciation A/c. ...	200	0	0
					,, ,,	Balance down ...	1800	0	0
		2000	0	0			2000	0	0
1902 Jan. 1	To Balance	1800	0	0	1902 Dec. 31	By Depreciation A/c. ...	200	0	0
					,, ,,	Balance down ...	1600	0	0
		1800	0	0			1800	0	0
1903 Jan. 1	To Balance	1600	0	0	1903 Dec. 31	By Depreciation A/c. ...	200	0	0
					,, ,,	Balance down ...	1400	0	0
		1600	0	0			1600	0	0
1904 Jan. 1	To Balance	1400	0	0	1904 Dec. 31	By Depreciation A/c. ...	200	0	0
					,, ,,	Balance down ...	1200	0	0
		1400	0	0			1400	0	0
1905 Jan. 1	To Balance	1200	0	0	1905 Dec. 31	By Depreciation A/c. ...	200	0	0
					,, ,,	Balance down ...	1000	0	0
		1200	0	0			1200	0	0
1906 Jan. 1	To Balance	1000	0	0	1906 Dec. 31	By Depreciation A/c. ...	240	0	0
,, ,,	,, Purchases ...	400	0	0	,, ,,	Balance down ...	1160	0	0
		1400	0	0			1400	0	0
1907 Jan. 1	To Balance	1160	0	0	1907 Dec. 31	By Depreciation A/c. ...	240	0	0
					,, ,,	Balance down ...	920	0	0
		1160	0	0			1160	0	0
1908 Jan. 1	To Balance	920	0	0	1908 Dec. 31	By Depreciation A/c. ...	240	0	0
					,, ,,	Balance down ...	680	0	0
		920	0	0			920	0	0
1909 Jan. 1	To Balance	680	0	0	1909 Dec. 31	By Depreciation A/c. ...	240	0	0
					,, ,,	Balance down ...	440	0	0
		680	0	0			680	0	0
1910 Jan. 1	To Balance	440	0	0	1910 Dec. 31	By Depreciation A/c. ...	240	0	0
					,, ,,	Balance down ...	200	0	0
		440	0	0			440	0	0
1911 Jan. 1	To Balance	200	0	0					

MACHINERY ACCOUNT. (EXAMPLE 2.)

Dr.							*Cr.*
1901 Jan. 1	To Sundry Purchases	£ 2000	1901 Dec. 31	By Depreciation A/c. ...	£ 200
			,, ,,	Balance down ...	1800
1902 Jan. 1	To Balance	1800	1902 Dec. 31	By Depreciation A/c. ...	180
			,, ,,	Balance down ...	1620
1903 Jan. 1	To Balance	1620	1903 Dec. 31	By Depreciation A/c. ...	162
			,, ,,	Balance down ...	1458
1904 Jan. 1	To Balance	1458	1904 Dec. 31	By Depreciation A/c. ...	144
			,, ,,	Balance down ...	1294
1905 Jan. 1	To Balance	1294	1905 Dec. 31	By Depreciation A/c. ...	129
			,, ,,	Balance down ...	1165
1906 Jan. 1	To Balance	1165	1906 Dec. 31	By Depreciation A/c. ...	157
,, ,,	,, Purchases	400	,, ,,	Balance down ...	1408
		1565			1565
1907 Jan. 1	To Balance	1408	1907 Dec. 31	By Depreciation A/c. ...	141
			,, ,,	Balance down ...	1267
1908 Jan. 1	To Balance	1267	1908 Dec. 31	By Depreciation A/c. ...	127
			,, ,,	Balance down ...	1140
1909 Jan. 1	To Balance	1140	1909 Dec. 31	By Depreciation A/c. ...	114
			,, ,,	Balance down ...	1026
1910 Jan. 1	To Balance	1026	1910 Dec. 31	By Depreciation A/c. ...	103
			,, ,,	Balance down ...	923
1911 Jan. 1	To Balance	923			

Depreciation.

Example 1.—In this account the Depreciation is at the rate of 10% per annum on the original cost of the machinery, and the effect is to leave no balance at the end of ten years. The balance of £200, Jan. 1st, 1911, is the amount at which the machinery bought on Jan. 1st, 1906, stands in the books at the former date.

Depreciation Account is debited each year with an equal amount, i.e., £200 the first five years, and £240 from the sixth to the tenth years; the Depreciation for the year ending Dec. 31st, 1911, will be £40.

Example 2.—The Depreciation here is 10% per annum on the diminishing value, and the amount debited to Depreciation Account is greatest in the first year. The reason for this is that repairs are heavier in the later years, and therefore the Profit and Loss Account bears on the average a more equal amount—for Depreciation and Repairs—each year.

The balance Jan. 1st, 1911, represents the balance of original amount	£686
And the balance of the Purchase, Jan. 1st, 1906	237
	£923

EXERCISE 72.

On 1st of April, 1902, Machinery is purchased for £3,000. Depreciation at the rate of 8% per annum upon the original cost is written off during the next four years, the books being made up to 31st Dec. each year. Then £400 is added to Machinery Account for expenditure upon improvements, and for the next three years 10% is annually written off upon the diminishing balance. The Machinery is then sold for £1,000. Prepare Ledger Account.

EXERCISE 73.

A Factory consists of two Blocks of buildings, A and B: on 1st of January, 1902, *A* contains Engine and Boiler £800 and Machinery £2,600, *B* contains Machinery £1,400. The following are purchases of Machinery: Oct. 1st, 1902, A £200; July 1st, 1903, A £150, B £300; April 1st, 1904, A £120, B £180; Oct. 1st, 1904, B £50.

On January 1st, 1903, Machinery (costing January 1st, 1902, £200) is sold from A for £125, and on July 1st, 1903, Machinery (costing £260 January 1st, 1902) is sold from B for £200.

The accounts are made up to 31st Dec. each year. On 31st Dec., 1904, the whole premises and contents are destroyed by fire, and the Fire Insurance Company agree to pay upon the following basis:—Engine and Boiler, cost price, less depreciation 8% per annum upon that sum; Machinery in A, cost, less depreciation at 10% per annum upon diminishing value: Machinery in B, cost, less depreciation at 7½% per annum upon diminishing value. Prepare accounts shewing how much is recoverable upon this basis.

CHAPTER XXXVIII

Apportionments—Rates, Taxes, and Insurance—Provision for Discounts and Bad Debts—Rebates

At the date up to which a set of Books are balanced there will, in the great majority of cases, be found to be certain items of Expenditure which "overlap" two periods, or, in other words, which cover a certain fixed period of time which does not coincide with the half-year or year covered by the Accounts. These are principally payments for Rates, Taxes, Insurance, Gas, Water, &c., and in such cases an "apportionment" is necessary. For example, suppose that a Trader's accounts are made up half-yearly to 30th September and 31st March, and that in August a "District Rate" is paid (£63 10s. 0d.), which discharges the liability for the twelve months ending 31st March following. On 30th September it is clear that half this amount is "prepaid," and should not be charged to the Profit and Loss Account. It is therefore carried down in the Rates Account as an Asset at this date, and thus falls as a charge against the next half-year's account. If the Poor Rate is payable *half-yearly*, and a payment on July 5th of £29 18s. 6d. represents the charge for the six months ending 30th September, then on the latter date the item has "run off," and no apportionment of that item is required Similarly, a payment any time during the following half-year represents the charge up to 31st March. The "Rates Account," page 291, will shew clearly how each half-year's Profit and Loss Account bears its proper share of the expense.

If this apportionment is neglected, the charge to Profit and Loss Account at September 30th would be £93 8s. 6d., and at March 31st £29 18s. 6d., thus rendering useless any comparison of one period with another.

On the other hand, if in this case the Books are made up to 31st December, the position then is:—

Poor Rate *prepaid*, 3 months (Jan.-March) ... £14 19 3
District Rate *prepaid*, 3 months (Jan.-March)... £15 17 6

and the Account will be treated as in the second Rates Account below:—

RATES ACCOUNT.

19	02		£	s.	d.	19	02		£	s.	d.
July	5	To Cash (Poor Rate) ... (Apl. 1st—Sept. 30th)	29	18	6	Sept.	30	By District Rate Prepaid	31	15	0
Aug.	19	Do. (District Rate) (Apl. 1st—Mch. 31st, 1903)	63	10	0		,,	,, Profit and Loss Account	61	13	6
			93	8	6				93	8	6
						19	03				
Oct.	1	To Amount Prepaid ...	31	15	0	Mch.	31	By Profit and Loss			
Dec.	3	,, Cash (Poor Rate) ... (Oct. 1st—Mch. 31st, 1903)	29	18	6			Account	61	13	6
			61	13	6				61	13	6

RATES ACCOUNT.

19	02		£	s.	d.	19	02		£	s.	d.
July	5	To Cash (Poor Rate) (Apl. 1st-Sept. 30th) ...	29	18	6	Dec.	31	By District Rate Prepaid £15 17 6			
Aug.	19	,, Cash (District Rate) (Apl. 1st-Mar. 31st, 1903)	63	10	0		,,	,, Poor Rate Prepaid 14 19 3 ✓	30	16	9
Dec.	3	,, Cash (Poor Rate) (Oct. 1st-Mar. 31st, 1903)	29	18	6		,,	,, Profit and Loss Account ...	92	10	3
			123	7	0				123	7	0
19	03										
Jan.	1	To Amount Prepaid ... ... ✓	30	16	9						

GAS AND WATER ACCOUNT.

1902			£	s.	d.	1902			£	s.	d.
Feb.	7	To Cash (Water) (Quarter ending Dec., 1901) ...	38	10	0	Mar.	31	By Profit and Loss Account ...	139	11	6
	11	,, Cash (Gas) (Quarter ending Dec., 1901) ...	29	10	0						
Mar.	31	,, Gas A/c. owing c/	43	18	6						
	,,	,, Water ,, ,, c/	27	13	0						
			139	11	6				139	11	6
May	1	To Cash (Water) (Quarter ending 31st March) ...	27	13	0	Apl.	1	By Amount owing: b/ Gas .. £43 18 6 Water 27 13 0	71	11	6
Aug.	18	,, Cash (Water) (Quarter ending 30th June) ...	31	18	6						
	,,	,, (Gas) (Half-year ending 30th June)	96	1	10	Sep.	30	,, Profit and Loss Account ..	126	17	10
Sep.	30	,, Gas A/c. owing c/	12	16	0						
	,,	,, Water ,, ,, c/	30	0	0						
			198	9	4				198	9	4
						Oct.	1	By Amount owing: b/ Gas ... £12 16 0 Water 30 0 0	42	16	0

Insurance Premiums (Fire, Employers' Liability, Boiler, &c.) are always paid in advance, and therefore, unless the Trader's accounts are closed up to the date of expiry of the Insurance Policy, there is *always* an amount prepaid on this account.

Fire Insurance Account.

1902.		£	1902.		£	s.	d.
July 2 To Cash		100	Dec. 31 By P. & L. A/c.		50	0	0
			Amt. prepaid		50	0	0
1903.			1903.				
Jan. 1 To Amt. prepaid ...		50	June 30 By P. & L. A/c.		50	0	0
July 3 To Cash		100	and so on.				

Taxes—by which are meant Income Tax, Property Tax, House Duty, Land Tax, &c.—are always payable in advance for the Government year ending 5th April. When Books are made up

to 31st March, this is treated as coinciding with the expiry of the Government year, and no apportionment is necessary. As these claims are usually paid between January and March, there is always a liability accrued when Books are made up to December 31st or any prior date. At 31st December nine months' proportion is owing, at 30th September six months, at 30th June three months, &c.

Gas, Electricity, and Water.—The Bills for these expenses are usually received quarterly or half-yearly: care should be taken to provide for any accrued liability when Books are made up to any intermediate date. If the amounts are small, an estimate may be based upon the previous charges, but where the consumption is large the exact amount should be found by reference to meters, &c.

Wages.—The day up to which Wages is paid does not always coincide with the end of the financial year or half-year. If Wages is paid up to Friday night, and the financial year ends on the following Wednesday, two-thirds of a week's wages will be *owing* then, and the amount should be estimated and carried forward in the Wages Account as a liability. If this is not observed, the result in course of time will be that one year will be charged with 53 weeks' wages. When the Wages is a large item, this might make a material difference.

Discount.—When Books are balanced, a provision should be made for the Discount which will be allowed to the Debtors upon a settlement of their accounts. This, of course, cannot be exactly ascertained, but it can be estimated with sufficient accuracy. One point of importance is sometimes overlooked: a Debtor may have remitted sums *on account* and he may not have been credited with any Discount, the matter being left until the Account is actually settled up to any given date. Therefore, such a Debtor is entitled not merely to the Discount on the *balance* of his Account, but also on payments already made, which will probably be a great deal larger than the balance. Any Accounts of this kind should be carefully examined when the Discount on Debts is calculated.

Dr. DISCOUNTS ALLOWED. *Cr.*

1902.		£	s.	d.	1902.	£	s.	d.
Jan. 31	To Sundries...	26	17	3	June 30 By P. & L. A/c.	401	12	4
Feb. 28	,, ...	48	15	9				
Mar. 31	,, ...	37	9	5				
Apl. 30	,, ...	46	10	8				
May 31	,, ...	42	1	11				
June 30	,, ...	39	17	4				
,,	To Reserve 5% on £3,200...	160	0	0				
		£401	12	4				
					July 1 By Reserve ...	160	0	0

The above is the Account of "Discounts Allowed" of a business commencing 1st Janua_y, 1902. Say that on June 30th £160 is a sufficient sum to cover the Discount on Debts outstanding, that amount is debited as shewn, and afterwards brought down as a credit at the beginning of the following half-year's account. The Discounts allowed in July, &c., will be posted to the debit, and another reserve will be made in the same way at 31st December. In the Balance Sheet the £160 is to be shewn as a *deduction* from the Debts total and *not* as a liability.

Discount Received.—An estimate should be made of Discounts which are to be deducted from Creditors' accounts, and treated on the same principle, the reserve, of course, being first credited and brought down as a *debit* against the next half-year. Usually this reserve can be ascertained pretty accurately.

Bad Debts.—As mentioned in Chapter 37, a provision for any probable loss on doubtful accounts should be made, and it is well to also provide something for unexpected losses. The matter is treated in the same manner as in the case of Discount Allowed:—

Dr. BAD DEBT ACCOUNT. *Cr.*

1902.		£	s.	d.	1902.	£.	s.	d.
Feb. 28	To R. Moore and Son ...	45	10	0	June 30 By P. & L. A/c.	308	4	4
Apl. 30	,, Patent Co. Ltd. ...	25	16	8				
May 31	,, I. and I. Cairns ...	36	17	8				
Jan. 30	,, Reserve ...	200	0	0				
		£308	4	4				
					July 1 By Reserve ...	200	0	0

In the Balance Sheet the £200 is to be shewn as a *deduction* from the Debts total and *not* as a liability.

Rebate on Bills.—This is a matter which chiefly applies to Banking, but it also requires attention in the case of any business which deals with a large amount of Bills. Suppose that on November 1st, 1902, A. B. receives a Bill due 4th March, £1,000, and that on November 4th A. B. sells this Bill to C. D., receiving cash £986 13s. 4d., C. D. charging £13 6s. 8d. as Discount (four months at 4% per annum). On 31st December C. D. makes up his Books: his Discount Account contains a credit of £13 6s. 8d., but he has not earned the whole of it, as there are still 63 days to run before he receives the £1,000. In order to shew the true position of his affairs on 31st December, C. D. must arrange his accounts so that the year 1903 receives the benefit of the Discount accruing from January 1st to March 4th, as shewn below:—

(C. D.'s Ledger) DISCOUNT ACCOUNT.

1902.	£	s.	d.	1902.	£	s.	d.
Dec. 31 To Rebate, 63 days ...	6	18	1				
,, P. & L. A/c.	6	8	7	Nov. 4 By A. B. ...	13	6	8
				1903.			
				Jan. 1 By Rebate ...	6	18	1

BILLS RECEIVABLE.

1902.	£
Nov. 4 To A. B. ...	1,000

A. B.

1902.	£	s.	d.	1902.	£	s.	d.
Nov. 4 To Cash ...	986	13	4	Nov. 4 By Bill ...	1,000	0	0
,, Discount...	13	6	8				

At 31st December, 1902, the Discount on this Bill (and any others) for the remaining term of currency is calculated at the rate charged, and that proportion is carried forward to the following year. It is clear that 1902 should not take credit for what is really interest on money lying out during 1903, and if C. D. wished to realise the Bill on 31st December, 1902, it is plain that he would (treating Discount at the same rate) only receive its amount, £1,000, *less* the 63 days' discount, £6 18s. 1d. His Books now shew his true position at that date.

The Student may think that if on 31st December, 1902, C. D. has not *earned* all the £13 6s. 8d., A. B. has not *lost* it all on that date, and that A. B. should on December 31st make a Rebate entry in the *reverse* way. But this is not so; the position of A. B. is quite different. On November 4th he had something to sell which was not convertible *in full* into cash until March 4th, 1903; he parts with his Asset on Nov. 4th and receives Cash, the difference being an immediate loss, and the matter is at an end. This suggests the reflection that a Trader ought, when making up his Accounts and drawing a Balance Sheet, to deduct from any Bills in hand the Discount at the current rate for the unexpired term, so as to reduce their value to the *present cash value*. This is not carried out in practice: Bills on hand (not discounted) are taken at their full value, just as all the "open" Debts are taken at their full value, even although they may not be receivable for several months to come.

Rebates to Customers.—Large Merchants and Manufacturers occasionally allow a customer a small extra percentage on sales at the end of the year if the amount of goods sold to him exceed a certain minimum during the twelve months. These are either treated as Discounts Allowed, or are debited to a "Rebates" Account and credited in the Sold Ledgers, by means of Journal entries, and should be included before the Books are closed.

EXERCISE 74.

THE RED HOT SHOT CO. LTD.

TRIAL BALANCE, DEC. 31ST, 1897.

	£	s.	d.	£	s.	d.
Mortgage Creditor with first charge on Property at 3¾%				3,500	0	0
Freehold Property valued at	6,000	0	0			
Debentures, 4½%				4,000	0	0
Preference Shares, 5½%, 1,000 £10, £8 called				8,000	0	0
Ordinary Shares, 800 £10, £8 called ...				6,400	0	0
Stock, Jan. 1st	3,750	1	0			
Cash at Bank	183	19	0			
Cash in Hand	24	17	6			
Creditors				295	11	8
Sales, less Returns				17,499	10	6
Manufacturing Wages	3,137	19	8			
Debtors	4,342	5	6			
Purchases, less Returns	8,123	6	9			
Productive Expenses...	1,085	4	7			
Discount Account	492	3	6			
Plant	3,339	0	0			
Distributive Expenses	3,876	4	8			
Goodwill	5,000	0	0			
Bad Debts	340	0	0			
	£39,695	2	2	£39,695	2	2

Stock Dec. 31st, 1897, £4,833 0s. 10d.
Reserve 5% on Book Debts for Discounts.
Write off £339 from Plant.
The Preference Dividend is paid, and also 2% on the Ordinary Shares.
Make out Trading and Profit and Loss Accounts, and Balance Sheet embodying the above particulars.

EXERCISE 75.

Trial Balance extracted from the Books of Herbert Brett, of Liverpool, Merchant, on the 30th June, 1898:—

	£	s.	d.	£	s.	d.
Debtors and Creditors (as per Schedules)	7,500	0	0	4,000	0	0
Bills Receivable	1,000	0	0			
Office Fixtures and Furniture ...	450	0	0			
Goodwill	1,000	0	0			
Capital Account				7,475	0	0
*Iron Account				2,200	0	0
*Steel Account				1,720	0	0
*Coal Account				1,500	0	0
*Goods (Sundries) Account ...	600	0	0			
Rent, Rates, and Insurance ...	220	0	0			
Insurance (Marine)...	300	0	0			
Travelling	1,200	0	0			
Salaries	750	0	0			
Advertising and Stationery ...	200	0	0			
Telegrams and Stamps	320	0	0			
Bank Charges	70	0	0			
Discounts and Exchanges... ...	400	0	0			
Incidental Expenses	150	0	0			
Office Expenses	350	0	0			
Home Bank, Limited	700	0	0			
Continental Bank	2,000	0	0			
Cash in Hand	35	0	0			
Income Tax (Reserve Account) ...				200	0	0
H. Brett's Drawing Account ...	850	0	0			
Loan Account				1,000	0	0
	£18,095	0	0	£18,095	0	0

* Each of these Accounts was debited with the Stock in hand on 30th June, 1897, and has been debited with purchases, carriage, &c., and credited with sales

The Stocks on 30th June, 1898, were as follows:—

Iron	£1,800
Steel	£680
Coal	£500
Goods	£1,000

Write off 25% from Goodwill, allow 5% for Discount on amount of Debtors, and Credit Income Tax Reserve with 8d. in the £ on the profit for the year. Credit Loan Account with a year's Interest at 5%.

Prepare Profit and Loss Account and Balance Sheet.

CHAPTER XXXIX

Sectional Balancing—Proving Ledgers—Balance Books

In a set of Books containing a large number of Accounts the preparation and exact agreement of the Trial Balance involves a great amount of additional labour when errors have been made in some unknown portion of the Books, and consequently a "difference" has to be searched for. To reduce the trouble of searching for an error in those Books which may be perfectly correct, it is better to arrange matters so that the Sold Ledger may be balanced and proved, quite apart from the other Ledgers. This Ledger (or Ledgers) usually contains far more entries than any other. The Bought Ledger can be balanced in the same manner, and any remaining difference caused by an error in the Private or Impersonal Ledger can usually be found by checking without very much trouble.

The Sold Ledger is balanced in the following manner:—

SOLD LEDGER SUMMARY.

1902.		£ s. d.	£ s. d.	1902.		£ s. d.	£ s. d.
Jan. 1	To Balances per List:—			Jan. 31	By Cash Book ...	1,104 11 6	
	£ s. d.				,, Discount ...	18 4 3	
	Dr. 2,896 1 7				,, Journal ...	69 6 9	
	less Cr. 13 12 7	2882 9 0			,, Returns Book	137 1 11	
					,, Balance ...	3,381 17 9	
31	To Sales Day Book	1,575 13 2					
	,, Journal ...	18 0 0					
	,, Cash Book ...	235 0 0					
			£4,711 2 2				£4,711 2 2
Feb. 1	To Balance ...	3,381 17 9					

On 31st December, 1901, a Balance Sheet has been drawn, shewing Balances in the Sold Ledger £2,896 1s. 7d.; deducting a few small Credit Balances, £13 12s. 7d., leaves £2,882 9s. 0d. as the nett amount of Debts at the commencement of 1902. This is the starting-point of the above Summary. All the items in the Sales Day Book are postings to the Sold Ledger, therefore the total is added.

In the Journal the amounts are each marked, shewing to which Ledger they are posted, and a memorandum is made at the end of January shewing the total postings to each Ledger.

The Cash Book also shews at end of the month the total amounts posted to each Ledger, and this is rendered easier if the folios of separate items are carefully marked, at the time of posting, with the initial of the Ledger (this is omitted in the case of entries of cash received and posted to Sold Ledger, it being understood that unmarked items *do* belong to that Ledger). The Analysis at the foot of the Cash Book will explain this.

The Returns Inwards are all posted to Sold Ledger, and the total, therefore, is entered in the Summary. This Summary now shews that as a result of all these entries the Sold Ledger should contain on 31st January, 1902, total Debts amounting to £3,381 17s. 9d. The List of Balances in the Ledger is abstracted, and should give the same total. If a difference appears, it can be traced to one side or the other of the Ledger by abstracting the *totals of postings* in the Ledger and comparing this with the total of the Summary (excluding Balances): if only *one* side (Dr. or Cr.) differs, then only the postings or additions affecting that side need be checked in order to discover where the error has occurred.

For example, suppose that the total of the list of Balances in the Sold Ledger on 31st January amounted to £3,371 17s. 9d., shewing a difference somewhere of £10. The total debit postings of the Ledger are then abstracted, and add up to £1,818 13s. 2d.; the Summary gives a debit total postings of £1,828 13s. 2d., therefore the error lies somewhere on that side. By checking the Sales Day Book additions for January it is found that the total of one page, £906 15s. 8d., has been carried forward £916 15s. 8d., therefore the £1,575 13s. 2d. Sales (in Summary) should be altered to £1,565 13s. 2d., making the Balance £3,371 17s. 9d., which now agrees exactly with the Ledger.

The Bought Ledger can be "proved" by the same method. The Summary may be kept on a Sheet, or written (as a *memorandum* only) in the Ledger. It is very useful, apart from the question of Balancing, as shewing clearly the position of the Ledger Accounts as a whole, month by month. A system of balancing in this way usually ensures greater accuracy and promptitude in posting, and often when it has been in use some time the figures nearly always agree and a "difference" is of rare occurrence.

CASH BOOK.

1902				Disco'nt £	s.	d.	Cash £	s.	d.	Bank £	s.	d.	1902				Disco'nt £	s.	d.	Bank £	s.	d.
Jan.	1	To Balance	✓							325	7	6	Jan.	4	By Wages	I 29				126	17	0
			S											11	,, ,, ...	29				125	12	6
	1	,, A. Bouron	7	0	3	6	7	3	6					18	,, ,, ...	29				121	18	9
	4	,, S. Dent & Co. ...	149				400	0	0	407	3	6		19	,, Randles & Son (cheque returned)	S 96				235	0	0
	6	,, M. Gillies & Sons...	250	1	9	0	57	6	0							B						
	8	,, S. Knill	298	0	19	6	18	19	0					23	,, Dixon & Dixon ...	146	1	17	6	79	18	0
	9	,, Sidney & Co. Ltd.	487	2	6	0	84	0	0					,,	,, W. Maltby & Co. ...	360				327	10	0
	,,	,, Burne & Bank ...	39	0	1	0	0	19	6	161	4	6		,,	,, A. & R. Longmiers ...	319	0	7	8	14	0	0
	14	,, Randles & Son ...	96	5	16	3	235	0	0					,,	,, Kenyon Bros.	315	5	7	1	102	0	0
	16	,, B. & F. Walker ...	586	3	8	9	136	0	0	371	0	0		,,	,, Adam Pratt	401	1	0	0	19	0	0
	20	,, Terry & Taylor ...	530	1	10	11	60	0	0					,,	,, E. A. Mason	328				3	3	0
	21	,, Mead Brothers	381				50	0	0	110	0	0				I						
	27	,, D. Trade	560	0	9	4	18	3	6					25	,, Wages	29				106	13	0
			B													P						
	,,	,, Dixon & Dixon ...	146				2	2	0					31	,, C. Rose, Drawings A/c	3				50	0	0
			S											,,	,, R. Man do. ...	27				25	0	0
	,,	,, A. Bouron	7				10	0	0					,,	,, Balance down	✓				95	8	9
	30	,, Mead Brothers ...	382	2	0	0	27	0	0	57	5	6										
				18	4	3	1106	13	6	1432	1	0					8	12	3	1432	1	0
Feb.	1	To Balance	✓							95	8	9										
		ANALYSIS.													ANALYSIS.							
		Sales Ledger		18	4	3	1104	11	6						Bought Ledger		8	12	3	545	11	0
		Bought Ledger... ...					2	2	0						Impersonal Ledger ...					481	1	3
															Private Ledger					75	0	0
															Sales Ledger					235	0	0
				18	4	3	1106	13	6								8	12	3	1336	12	3
															Balance					95	8	9
																				1432	1	0

JOURNAL.

190					£	s.	d.	£	s.	d.
Jan.	4	Bad Debt Account ... ... *Dr.*	I 119		40	1	6			
		To Hopkins & Co....	S 203					40	1	6
		Amount written off after receiving 10/- in £ on £80 3s. 0d.								
	23	Kenyon Bros. ... ... *Dr.*	B 315		6	3	9			
		To Kenyon Bros.	S 270					6	3	9
		Transfer.								
	23	S. Dent & Co. ... ... *Dr.*	S 149		18	0	0			
		To Machinery Account	P 111					18	0	0
		For sale of Old Engine.								
	31	C. Rose—Drawings Account ... *Dr.*	P 3		23	1	6			
		To C. Rose—Goods Account ...	S 613					23	1	6
		Goods supplied during January.								
	31	Peel & Co. ... ... *Dr.*	B 591		38	12	0			
		To Goods Account	I 130					38	12	0
		To cancel item posted in error January 7th.								
					125	18	9	125	18	9

Analysis.	*Dr.* £ s. d.	*Cr.* £ s. d.
Sales Ledger	18 0 0	69 6 9
Bought Ledger	44 15 9	
Impersonal Ledger	40 1 6	38 12 0
Private Ledger	23 1 6	18 0 0
	125 18 9	125 18 9

Balance Books.—Another method of balancing in detail, and so locating errors, is to make an abstract (in a book ruled for the purpose) of all the postings.

The following example shews the abstract of a part of a Sales Ledger for six months. Columns are provided for the balances at the beginning and end, and a separate one corresponding to each subsidiary book used.

Each Account in the Ledger is abstracted as follows:—The Ledger is examined page by page: the balance at July 1st is entered from the Ledger Account or from the last columns of the previous balance book, if any (June 30th); the total postings from the Sales Day Book from July 1st to December 31st are

entered in the column headed "Sales," and the columns headed "Cash Paid," "Journal and Transfers," "Cash Received," "Returns," "Journal and Transfers," are filled up in the same way, except that transfers from one account to another in the *same* Ledger (which have not been passed through the Journal) are entered in the "Journal and Transfers" column. On completing each page of the abstract, the abstractions and additions are checked by adding to the debit balances at July 1st the totals of the three debit columns and the credit balance at December 31st and agreeing the grand total with the addition of the three credit columns, the credit balances at July 1st, and the debit balances at December 31st. (It is sufficient to agree the totals although each line agrees separately).

The total of the Sales Column is now compared with the Sales Day Book for the half-year, and should agree therewith, likewise the Returns Column with the Returns Book.

The totals of Cash Columns are agreed with the Cash Book's totals of Cash Paid and Received posted to the Sales Ledger, and the Journal Columns (Dr. and Cr.), after deducting the transfers in the same Ledger, which are marked T, are agreed with the Journal's total of postings to the Sales Ledger.

The agreement of all the subsidiary books with the totals of Balance Book columns ensures the accuracy of the Ledger, except that an item may be posted to a wrong account, viz., Smith, Jones & Co., instead of Smith & Son. Such errors must be guarded against by checking the postings at short intervals.

BALANCE BOOK. SALES LEDGER. HALF-YEAR ENDING 31ST DECEMBER, 1900.

		1	2	3	4	5	6	7	8	9	10
		July 1st.	July 1st.	DR.			CR.			Dec. 31st.	Dec. 31st.
Folio.	Name.	DR. Balance.	CR. Balance.	Sales.	Cash Paid and Discount	Journal and Transf'rs	Cash Received and Discount	Returns.	Journal and Transf'rs	DR. Balance.	CR. Balance.
		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ T s. d.	£ s. d.	£ s. d.
5	Adlam & Co....	18 13 2		156 11 0			127 1 3	1 2 9	0 10 0	46 10 2	
23	Archer & Print	128 12 0					32 3 0		96 9 0		
30	Boynton & Sons	12 13 9		87 19 0		13 10 0	93 0 0	0 12 6		20 10 3	
37	A. L. Bailey	0 1 0								0 1 0	
42	Brasey & Co. Ltd.			539 16 0			539 16 0				
49	Cadman & Carr	32 12 0		58 16 6	20 0 0		40 0 0	10 7 0		61 1 6	
57	Crossley Brothers	47 19 11		237 3 10		18 12 0	187 19 0	27 18 1	28 18 8	59 5 0	
60	Cousins & Cooke		1 10 0	29 1 4		0 13 9		0 12 0		27 13 1	
69	J. Cowen			367 16 7			301 8 1	8 8 6	20 1 1	37 18 11	
73	Earle & Son	227 12 0		8 19 0	100 12 0	T 0 10 0	226 19 3	57 1 0		48 12 9	
79	Frazer & Co....	76 16 6		61 0 0			138 16 6				1 0 0
83	Graiz & Lord		0 2 0								0 2 0
87	A. R. Gane	2 11 6						2 11 6			
91	Hardt, Son & Co.	91 19 0		461 16 3			327 0 0	0 10 0	120 0 0	106 5 3	
106	Hamman & Son			191 3 7		127 10 0	127 10 0	0 2 6		191 1 1	
119	Jubb & Kay...	11 11 0		57 7 2			21 17 0			47 1 2	
	Totals ...	651 1 10	1 12 0	2252 10 3	120 12 0	160 15 9	2163 10 1	109 0 10	265 18 9	646 0 2	1 2 0

EXERCISE 76.

THE FOUNDRY CO. LTD.

TRIAL BALANCE, 31ST DEC., 1900.

	£ s. d.	£ s. d.
4½% Debenture Stock		10,000 0 0
5½% Preference Shares, 600 of £20 fully paid		12,000 0 0
Ordinary Shares, 1,800 of £10 fully paid ...		18,000 0 0
Freehold Land and Buildings	13,500 0 0	
Engines, Boilers, &c....	2,500 0 0	
Machinery, Plant, &c., 1st. Jan., 1900 ...	4,000 0 0	
Creditors		3,426 5 9
Horses, Carts, &c., 1st Jan., 1900	650 0 0	
Bills Payable		1,820 0 0
Debenture Interest paid June 30th ...	225 0 0	
Returns Outwards		630 16 2
Models, 1st Jan., 1900	1,500 0 0	
Cash	85 10 6	
Debtors...	16,793 16 6	
Bankers	2,130 17 2	
Stock, 1st Jan., 1900	9,360 18 9	
Sales: Goods		31,260 9 8
,, Old Machinery		20 10 0
Purchases (including New Models £500) ...	15,060 10 3	
Discount received		486 13 11
Returns inwards	1,184 13 2	
Wages (including making New Models £300)	6,027 15 9	
Salaries...	727 10 0	
Horsekeep	214 6 3	
Repairs...	398 10 6	
Advertising	326 11 1	
Discount allowed	898 10 8	
Trade Expenses	596 8 10	
Rates, Taxes, and Insurance	365 15 5	
Lighting and Water	326 11 9	
Carriage inwards	349 3 2	
Bad Debts	422 5 9	
	£77,644 15 6	£77,644 15 6

Stock 31st Dec., 1900, £7,826 11s. 9d.

Provide for Bad Debts £200, Discounts Receivable £100, Discount on Debts, £550.

Owing: Electric Light £50, Water £20, Rates £30.

Insurance paid in advance £20.

Depreciation: Engines, &c., £150; Machinery, £200; Horses and Carts, £70; Models, £400.

Prepare Trading Account and Balance Sheet, 31st Dec., 1900.

EXERCISE 77.

The following TRADING ACCOUNT AND BALANCE SHEET have been prepared:—

1900.		£	1900.		£
Jan. 1	To Stock	200	June 30	By Sales	2,900
June 30	,, Purchases ...	1,150	,,	,, Stock	120
,,	,, Wages	860	,,	,, Disct. received	22
,,	,, Discount allowed	38			
,,	,, Repairs	86			
,,	,, Rent, Rates, and Taxes	164			
,,	,, Advertising ...	87			
,,	,, Petty Expenses..	46			
,,	,, Carriage... ...	54			
		2,685			
	,, Balance	357			
		£3,042			£3,042

BALANCE SHEET, 30TH JUNE, 1900.

	£		£
To Capital	1,164	By Stock	120
,, Creditors	580	,, Debtors	1,350
		,, Bank	260
		,, Cash	14
	£1,744		£1,744

The following errors are afterwards discovered:—

Stock, January 1st, overadded £50. Wages *owing* June 30th, £5 omitted.

Goods taken by Proprietor during half-year, £24 not entered.

5% Discount on Debtors not allowed for at June 30th.

Rates £10 paid in advance June 30th.

Prepare a corrected Trading Account and Balance Sheet.

CHAPTER XL

Departmental Accounts

Where the trade carried on can be clearly divided into two or more distinct sections it is advisable that the system of Book-keeping should be so arranged as to shew the separate results of each section or *Department.* In a few cases this purpose is found to be best achieved by the employment of an entirely separate set of Books for each Department, in which the transactions are recorded as though they belonged to separate businesses, and special Banking Accounts are opened for each section, so that if Department A buys goods from Department B, a Cheque is drawn on the "A" Bank Account and paid into the credit of "B" Account. But as a rule it is more convenient for the whole of the transactions to be kept in one set of Books, which necessitates special arrangements and rulings to meet the requirements of each individual business.

The simplest example of this is afforded by the accounts of a Clothier and Outfitter, who wishes to divide his business into four Departments, "Bespoke" (or goods made to order), "Ready-Mades," "Hosiery," and "Hats," and who requires to know the separate result of Trading in each case. The following explanation of the Books, together with the specimen accounts, will shew how this system is worked:—

Sales.—Wherever a sale takes place, either a "Cash" or "Credit" sale, a Bill is made out, as per form, p. 309. Each Salesman keeps a Counter Book containing these Bills numbered consecutively, with a duplicate leaf upon which a Carbon copy is made. If the sale is a Cash one, the Bill is stamped "Paid," and is handed to the customer (or forwarded with the goods). In a large establishment the duplicate is at once torn out and handed to the Cashier; in other cases the duplicates remain in the Book until the close of the day.

Cash Sales Book.—In this Book all the "paid" duplicate Bills are entered, *first* for the purpose of checking the Cash in the Till

at the end of the day, and *second* for the purpose of dissection. If several salesmen are employed, the Counter Books will be lettered or numbered differently for each, and each man's duplicates will be either entered on a separate page, or kept distinct on the same page so as to shew the total of each man's sales for the day. The day's total of all the Cash Sales is entered in the Cash Book. The Daily Cash Sales are also carried to the Cash Sales Summary, which is added at the end of the month. This Summary may be written at the end of the Cash Sales Book.

Credit Sales.—The Duplicates of Bills for goods sold on credit are passed to the Book-keeper, who enters them in the Sales Day Book, as per form, page 310. The Book is kept in the ordinary way, and added up to the end of the month: the Returns Inwards (recorded in a similar form) are deducted, and the total of Cash Sales is added for the purpose of shewing the *total* Turnover (cash and credit) for the month: this is perhaps the item of paramount importance to the trader.

Purchases Day Book contains similar Analysis Columns, and Returns Outwards are deducted at the end of the month.

Summary of Purchases and Sales.—Here are collected the monthly totals from the Purchases and Sales Day Books, Cash and Credit Sales being shewn separately each month. By adding to the Purchases the Stock at beginning of the year, and adding to the Sales the Stock at end of year, the Gross Profit on each Department is shewn, and the rates of gross profit per cent. on the Sales can easily be noted thereon. (The amount of "Wages" paid to Cutters and Tailors who are employed entirely in connection with the "Bespoke" Department should be added to the Purchases for that Department by means of a Transfer from a Ledger Account.)

In a business of this nature the "Expenses" do not usually vary to any great extent, and after the trader has completed one year's trading, he can then estimate, within a small amount, what the "Expenses" will be per month. He will also know, approximately, the rate of gross profit per cent. upon his Sales, and he can therefore at the end of any month tell very nearly what his *nett profit* is, without taking Stock or closing his Books. The Summary here referred to takes the place of the Goods Account,

or Trading Account, and may be kept at the end of any of the Account Books, no separate volume being necessary, as one page serves for a whole year's transactions.

The Sales and Bought Ledgers do not call for any special remark. All the other Accounts may be kept in a Private Ledger, and will mainly consist of Capital, Profit and Loss, and Expenses Accounts of various kinds. "Expenses" are not entered in the Purchases Day Book, and may usually be treated as simply Cash payments posted to the respective Ledger Accounts (Salaries, Repairs, Cleaning, Advertising, &c.), proper reserves being made at the end of the year for all unpaid expense items.

CASH SALES BOOK.

JANUARY 6TH, 1902.

No.	Total.			Bespoke.			Ready-mades.			Hosiery.			Hats.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
101	1	3	11				1	2	5	0	0	6	0	1	0
102	2	10	0	2	2	0	0	8	0						
103	1	18	0				1	10	0	0	8	0			
104	7	6	0				6	6	0	0	12	0	0	8	0
105	4	3	0				2	2	0	1	11	0	0	10	0
106	0	3	6							0	3	6			
107	1	14	0				1	10	0	0	4	0			
108	4	10	0				3	5	0	0	15	6	0	9	6
109	0	5	6							0	5	6			
	23	13	11	2	2	0	16	3	5	4	0	0	1	8	6

BILL.

No. 101.

Mr.....

Jan. 6th, 1902.

Bought of THE ROYAL OUTFITTING CO. LTD.

	£	s.	d.
1 No. 49 Sailor Suit 8/6	0	8	6
1 Boy's Cap 1/-	0	1	0
1 ,, Overcoat 13/11	0	13	11
1 Tie ... ... 6d.	0	0	6
	1	3	11

Paid
6/1/02.

CASH SALES SUMMARY.

Date.	Total.			Bespoke.			Ready-mades.			Hosiery.			Hats.		
1902	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Jan. 6	23	13	11	2	2	0	16	3	5	4	0	0	1	8	6
7	17	14	6	2	2	0	11	16	0	2	13	6	0	18	0
9	4	15	6				3	5	0	1	1	0	0	9	6
10	16	18	0	3	3	0	12	10	0	0	15	6	0	9	6
12	44	16	8	7	10	6	29	8	6	4	18	2	2	19	6
15	22	10	0	2	2	0	16	17	6	2	1	6	1	9	0
18	68	10	6	9	8	0	49	16	0	6	4	6	3	2	0
21	14	16	6	1	18	6	9	4	6	2	16	6	0	17	0
22	29	4	6	6	5	0	18	19	6	2	18	6	1	1	6
24	79	10	0	22	10	0	48	8	6	4	17	6	3	14	0
26	43	12	0	4	8	0	36	4	0	1	18	0	1	2	0
27	14	16	0	1	18	0	10	18	6	1	0	6	0	19	0
28	48	10	6	6	4	0	35	6	6	4	18	6	2	1	6
29	79	6	0	8	19	6	60	16	6	4	14	6	4	15	6
30	48	17	11	8	7	6	37	18	6	1	8	11	1	3	0
31	71	16	2	15	16	6	51	6	6	3	19	2	0	14	0
	629	8	8	102	14	6	448	19	5	50	11	3	27	3	6

SALES DAY BOOK.

Ledger Folio.		Total.			Bespoke.			Ready-mades.			Hosiery			Hats.		
	January 4th, 1902.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
	M. Wilson, Hull	2	12	6	2	0	0							0	12	6
	Sundry entries for Month, in detail	196	15	0	50	10	0	136	13	6	5	7	6	4	4	0
		199	7	6	52	10	0	136	13	6	5	7	6	4	16	6
	Less Returns for Month ...	1	18	6				1	18	6						
	Total Credit Sales	197	9	0	52	10	0	134	15	0	5	7	6	4	16	6
	Cash Sales as per Summary	629	8	8	102	14	6	448	19	5	50	11	3	27	3	6
	Total Sales for Month ...	826	17	8	155	4	6	583	14	5	55	18	9	32	0	0

PURCHASES DAY BOOK.

Date.		No. of Invoice.	Name.	Town.	Ledger Folio.	Total.			Bspke.			Ready-mades.			H's'ery			Hats.		
						£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
190	2																			
Jan.	4	1	Lambert & Co. ...	London		4	15	0							4	15	0			
	7	2	Smailes & Co. ...	Leeds		35	8	0										35	8	0
	9	3	Sampson & Taylor	London		36	17	0				36	17	0						
	14	4	Noble & Co. Ltd.	Bristol		17	11	0							17	11	0			
	20	5	Reliable Clothing Co. Ltd. ...	Leeds		1	15	0	1	15	0									
	27	6	Johnson & Co. ...	London		6	12	0										6	12	0
						102	18	0	1	15	0	36	17	0	22	6	0	42	0	0
			Deduct Returns for Month			0	17	6							0	17	6			
						102	0	6	1	15	0	36	17	0	21	8	6	42	0	0

SUMMARY OF PURCHASES AND SALES.

Bespoke.			Ready-mades.			Hosiery.			Hats.			Total P'rch'ses			Date.	Total Sales.			Bespoke.			Ready-mades.			Hosiery.			Hats.			Cash Sales.			Credit Sales.		
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
1	15	0	36	17	0	21	8	6	42	0	0	102	0	6	January	826	17	8	155	4	6	583	14	5	55	18	9	32	0	0	629	8	8	197	9	0
95	10	0	420	10	6	25	10	0	6	19	6	548	10	0	February	635	14	0	113	7	0	464	11	6	34	2	11	23	12	7	486	16	7	148	17	5
120	10	6	470	18	0	24	6	0	9	4	0	624	18	6	March	763	12	6	134	18	2	563	15	5	37	3	6	27	15	5	586	16	4	176	16	2
150	10	10	540	0	0	100	18	2	29	7	0	820	16	0	April	976	7	2	193	0	7	671	13	2	80	6	5	31	7	0	763	16	6	212	10	8
160	16	6	480	14	9	75	10	0	59	15	3	776	16	6	May	929	8	1	197	9	0	629	12	1	64	9	4	37	17	8	733	14	9	195	13	4
97	17	6	340	16	6	25	10	0	2	10	9	466	14	9	June	675	14	0	119	12	5	498	12	1	37	5	7	20	3	11	532	16	8	142	17	4
88	10	6	317	17	0	20	10	0	19	0	3	445	17	9	July	525	14	9	104	8	6	376	14	8	28	6	4	16	5	3	418	10	6	107	4	3
74	16	3	270	14	9	34	18	0	5	7	0	385	16	0	August	476	9	1	94	7	2	346	16	2	25	4	10	10	0	11	386	4	4	90	4	9
87	18	0	312	10	0	24	10	6	0	15	0	425	19	6	September	509	16	3	101	7	11	369	16	8	27	16	6	10	15	2	411	8	6	98	7	9
92	8	9	284	7	6	10	16	9	30	11	9	418	4	9	October	529	13	10	104	8	6	386	12	2	30	18	2	7	15	0	428	6	6	101	7	4
74	10	0	240	16	6	45	10	0	14	19	6	375	16	0	November	509	10	2	98	6	3	367	14	8	24	18	6	18	10	9	411	4	8	98	5	6
96	14	4	380	14	0	49	18	8	21	3	0	548	10	0	December	591	9	6	117	4	2	424	6	4	36	7	8	13	11	4	482	6	4	109	3	2
1141	18	2	4097	2	6	459	6	7	241	13	0	5940	0	3		7950	7	0	1533	14	2	5683	19	4	482	18	6	249	15	0	6271	10	4	1678	16	8
177	3	6	650	11	6	51	6	2	69	10	6	948	11	8	Stock on hand Jan. 1st																					
1319	1	8	4747	14	0	510	12	9	311	3	6	6888	11	11	Stock on hand Dec. 31st.	428	18	10	15	6	6	200	0	8	114	4	9	99	6	11						
229	19	0	1136	6	0	86	10	6	37	18	5	1490	13	11	Gross Profit																					
1549	0	8	5884	0	0	597	3	3	349	1	11	8379	5	10		8379	5	10	1549	0	8	5884	0	0	597	3	3	349	1	11						

Manufacturer's Departmental Accounts.—When a Manufacturer obtains at the year's end from the Accounts of his business a correct Balance Sheet, and a correct summary of the results of his operations in the form of a Trading and Profit and Loss Account, that information, whilst of itself extremely valuable, does not exhaust the possibilities of advantage to be derived from a proper system of Accounting. He not only needs accurate results of *past* dealings, but guidance for *future* transactions. He wishes to know where the weak spots are—which branches of his work have proved less remunerative than he had hoped for, and on which lines he can best increase the profit-earning power of his work. It may be that some particular production is more profitable than another, and can be made still more profitable by special development; it may be that he will save money by abandoning altogether some other line of business. It is information upon such points as these that he requires, and this can only be furnished in fullest detail by the most carefully arranged system of Departmental Accounts.

In a Manufacturing business the Departmental Accounts are designed to shew the separate results of the different *stages* of production of the Goods. In the present work only a short reference can be given to the principles to be observed, as a fully detailed description of the methods employed would occupy the space of a separate volume for each variety of trade. The Departments should be properly defined and arranged so as to represent distinct stages of manufacture; the Purchases of material should be carefully analysed, so that they may be correctly debited; the Wages should be analysed on the same lines; and the Expenses require careful dissection. Each Department (except the Selling or Merchant Department) manufactures goods, or passes them through some process, and should charge them to the succeeding Department at the current trade price, or if there be no reliable trade price for the goods at that stage, then at a fair estimated value.

The best example is that of a Cloth Manufacturer, whose business may be divided into "Top-Making," "Spinning," "Weaving," and Selling Departments. Raw Material (Wool) is purchased and manufactured into *Tops*; the Cost of Material, Wages, and proportion of Expenses are debited to this Department, and the market value of the *Tops* produced is credited.

The Spinning Department is debited with these Tops, and with Wages, other Materials, and proportion of Expenses, and is credited with the market value of the *Yarn* produced.

The Weaving Department is debited with this Yarn, other Materials, Warps, &c. (and possible Yarn bought *outside*), Wages, cost of Dyeing and Finishing, and proportion of Expenses, and is credited with the Cloth produced, at a price according to the market, or otherwise estimated.

The Selling or Merchanting Department is debited with the Cloth, and with all the Selling Expenses (Travelling, Commission, Discounts, &c.), and is credited with the actual Sales. This account is really the Trading Account of the concern.

The item "Proportion of Expenses" requires some explanation: this includes all charges other than Material and Wages, and demands very careful handling. Each Department should be charged with Rent of its portion of the Mill or Factory, with cost of Power for driving all machinery used in its operations, and also with a Rent for that Machinery. Very close attention is necessary to these apportionments, and to the proper distribution of *all* the charges against Departments, the object being to ascertain if any Department is working at a fair profit. Seeing that the product is credited at a market price, and therefore could be *bought outside* at that price, unless the Department can sell at the *same price* without loss it is not benefitting the business, and requires extra vigilance on the part of the Management.

The Balances of the various Departmental Accounts are transferred to the Profit and Loss Account.

EXERCISE 78.

A Manufacturer finds that during the three months his goods have cost per cent. on sale price :—

Raw Material	30
Wages	20
Rent, Rates, &c.	5
Fuel	10
General Expenses	15
	80

What should he add to his selling price in order to obtain the same profit if the following advances take place ?:—

Coal	50% advance.
Material	5% ,,
Wages	2½% ,,

EXERCISE 79.

On April 1st, 1902, a Tobacco Manufacturer purchases from Liverpool Brokers 42,600 lbs. of Leaf (lying in Government Bonding Warehouse) at 6d. per lb. His trade is divided into two Departments, No. 1 and No. 2. During the half-year ending 30th September, 1902, he takes out of Bond 34,200 lbs., paying thereon Duty at 3s. per lb., and sundry expenses ½d. per lb. This Leaf is used in the manufacturing, viz., 21,500 lbs. for No. 1 and 12,700 lbs. for No. 2, and in process of manufacture the weights increase by 12% and 15% respectively. Of the finished article he sells 19,240 lbs. (No. 1) at 4s. 6d., and 13,600 lbs. (No. 2) at 4s., allowing 4% Discount in each case.

The Expenses are: Wages, £726; Boxes, Packing, &c., £110; Carriage, £123; Travelling Expenses, £196; Rent, Rates, &c., £143; Advertising, £87; Repairs, £56; Sundries, £33.

He values his Stock on hand at 30th September, 1902, as follows :— Leaf at cost; No. 1 Tobacco 4s. 1d. per lb.; No. 2 Tobacco 3s. 8d. per lb. Dividing the expenses as follows, viz., two-thirds to No. 1 Department, one-third to No. 2 Department, prepare Trading Account for the half-year shewing Stocks (weight and cost price) on hand.

CHAPTER XLI

Branch Books—Amalgamations

In these days of "Amalgamations" and "Combinations," whereby a number of similar concerns are carried on in different places under the same Ownership and control, it becomes the more necessary to consider how methods of Book-keeping can be devised to meet the requirements of this modern development. No particular plan can be settled without carefully considering the nature of the business, the number, size, and location of the Branches, and the extent to which the "centralisation" or "decentralisation" of the work can be suitably carried. Generally speaking, the chief object in view is to ascertain the correct result of the trading of each Branch with least labour, and the following may be considered as a typical example:—

A Limited Company is formed to acquire six businesses (which for convenience we will designate as A, B, C, D, E, and F Branches), each Branch being situated in a different place, and the Company has a Central or Head Office. The Accounts relating to trading operations, buying, selling, &c., are to be kept in an ordinary set of Books at each Branch; each Branch is to pay into the general Banking Account of the Company *all* its receipts, and *all* payments are made by means of Cheques drawn at the Head Office and sent to each Branch for distribution; the Accounts of the business as a whole are to be kept at the Head Office, and matters are to be arranged so that a separate Balance Sheet and Trading Account may be drawn for each Branch at the end of each year. In the Head Office Books the entries relating to the issue of the Share Capital and the formation of the Company are recorded as previously described, separate Accounts being opened in the Head Office (H.O.) Ledger for the Assets purchased in connection with each Branch—e.g., if in each case Freehold property is part of the Assets, there will be a "Freehold Account A," "Freehold Account B," and so on. *One*

Stock Account is opened and debited with the six amounts of Stock at commencement. Assuming that the Company has purchased the Debts of each business, and has also taken over the Liabilities, in the H.O. Ledger one Account, "Sundry Debtors," is opened and debited with *all* the Book Debts; similarly, a "Sundry Creditors" Account is credited with *all* the Liabilities. Assuming that the issue of Shares has been completed, and that the purchase monies have been paid to the Vendors, the H.O. Books will now contain the following *Dr.* balances:—Freehold (six accounts), Machinery (six accounts), Sundry Debtors (one account), Stock (one account), Preliminary Expenses, Bank (per Cash Book); also the following *Cr.* balances:—Share Capital Account and Sundry Creditors (one account), the totals of Dr. and Cr., of course, being equal.

The next step is to open an account in the H.O. Ledger, called Branch "A" Account, and to transfer to its debit the total Book Debts and Stock at that Branch, crediting it with the total Liabilities of that Branch at commencement. This is repeated with each Branch, the result being that Sundry Debtors Account, Stock Account, and Sundry Creditors Account are extinguished in the H.O. Ledger. The "Branch Account" in H.O. Ledger now represents the amount of circulating Assets for which that Branch is accountable.

Before leaving the H.O. Books, the system of working the Cash must be described. Each Branch pays all its receipts into the Bank, and sends to H.O. a detailed weekly statement of such payments. From these statements, verified by comparison with the Bank Pass Book, a "Cash Receipts Book" is entered up, ruled with columns for each Branch, and at the end of the month in the H.O. Cash Book the total is entered, "To Branch A: £——, &c." Each Branch pays its Liabilities by means of Cheques *drawn at* the H.O.; therefore, at the H.O. these Cheques are separately entered in a "Cheque Payments Book" ruled with a column for each Branch, and at the end of the month the total is entered in the H.O. Cash Book, "By Branch A: £——, &c."

These entries in the H.O. Cash Book are posted to the respective Branch Accounts in the H.O. Ledger, month by month, until the end of the year.

Turning to the Books kept at each Branch, the Ledgers will begin with the separate Personal Accounts of the Debtors and Creditors, shewing balances due and owing at commencement. At each Branch an account is opened for "Head Office" and is credited with the total Book Debts and debited with the total Liabilities. The Stock is debited to a Trading Account and credited to Head Office Account, thus equalising the Drs. and Crs. in the Branch Ledger.

The Branch Cash Book totals are posted thus: Total Receipts (amount being paid to Bank) to debit of Head Office; total Payments (amount received from Bank) to credit of Head Office. No Bank Account is kept at the Branch, and the Cash Book's two sides are not "balanced," they being simply records of sums paid to, or received from, Head Office Account.

All transactions on Capital Account, such as payments for new Machinery, &c., are dealt with in the Head Office books alone. The Branch Books contain only the records dealing with circulating Capital. These Books are kept in the ordinary way, as though the Branch were a distinct concern, and at the end the Branch Trading Account is written up, debited with Depreciation, this being credited to the Head Office Account (there being no Machinery Account in the Branch Ledger). The Balance of the Trading Account (if profit) is credited to the Head Office Account, and the Ledger of the Branch would then shew the following:—

"A" BRANCH: BALANCE SHEET, 31ST DEC., 1902.

	£		£
To Sundry Creditors ...	1,500	By Stock	800
,, Head Office Account ...	1,600	,, Sundry Debtors... ...	2,300
	£3,100		£3,100

The following is the account appearing in the Ledger of "A" Branch for Head Office transactions:—

HEAD OFFICE ACCOUNT.

1902.		£	1902.		£
Jan. 1	To Sundry Creditors	1,400	Jan. 1	By Sundry Debtors	1,700
31	,, Cash	450	1	,, Stock	600
Feb. 28	,, ,, ...	300	31	,, Cash	300
Mar. 31	,, ,, ...	350	Feb. 28	,, ,, ...	400
Apl. 30	,, ,, ...	400	Mar. 31	,, ,, ...	350
May 31	,, ,, ...	300	Apl. 30	,, ,, ...	450
June 30	,, ,, ...	550	May 31	,, ,, ...	600
July 31	,, ,, ...	450	June 30	,, ,, ...	350
Aug. 31	,, ,, ...	500	July 31	,, ,, ...	750
Sep. 30	,, ,, ...	400	Aug. 31	,, ,, ...	400
Oct. 31	,, ,, ...	350	Sep. 30	,, ,, ...	500
Nov. 30	,, ,, ...	450	Oct. 31	,, ,, ...	400
Dec. 31	,, ,, ...	400	Nov. 30	,, ,, ...	650
,,	,, Balance down ...	1,600	Dec. 31	,, ,, ...	200
			,,	,, Depreciation ...	50
			,,	,, Trading A/c. ...	200
		£7,900			£7,900
			,,	,, Balance ...	1,600

In the H.O. Ledger, the Account of Branch "A" will stand as follows (the cash items are stated below in one sum for the whole year, to save space):—

"A" BRANCH ACCOUNT.

1902.		£	1902.		£
Jan. 1	To Sundry Debtors	1,700	Jan. 1	By Sundry Creditors	1,400
,,	,, Stock	600	Jan.-Dec.	,, Cash	4,900
Jan.-Dec.	,, Cash	5,350	,,	,, Balance down ...	1,600
Dec. 31	,, Machinery A/c., Depreciation...	50			
Dec. 31	,, P. and L. A/c., Profit ...	200			
		£7,900			£7,900
,,	,, Balance ...	1,600			

The entries of transactions which belong to the Company *as a whole*, and not to any Branch, are dealt with in the Head Office Books, and any income or expense items are carried to the Profit and Loss Account, which, of course, contains the nett results of each Branch (as "A," £200 profit). The H.O. Ledger, after the closing of the Books, contains all the amounts which go to make up the Balance Sheet, except that the "Branch Accounts" each shew a balance of a *composite* nature, as in the case of "A," £1,600, which really represents--

Sundry Debtors	Dr.	£2,300
Stock	Dr.	800
		£3,100
Less Sundry Creditors	Cr.	£1,500
	Dr.	£1,600

And, therefore, to arrive at the general Balance Sheet, each of the Balances is split up into its component parts.

This is the shortest and simplest method, and, of course, can be varied and elaborated to any desired extent. The H.O. Books contain no details of Trading at Branches, but one complete Trading Account can be prepared from the Branch figures, with columns for each Branch for purposes of comparison. The method described is designed to minimise the work, and avoid as far as possible duplicating entries in Branch and H.O. Books.

It is usual in such cases for weekly or monthly Returns, containing a summary of all transactions, to be regularly forwarded by each Branch to the Head Office, so that the Board of Directors may have proper information as to the progress of the entire business.

EXERCISE 80.

A manufacturing firm, with ten branches, in different towns, wishes to keep all the books at a central office, and to know the separate results of the trading of each Branch. Give a short description of how the Sales, Purchases, and Cash transactions might be dealt with.

EXERCISE 81.

THE BLANKSHIRE IRONFOUNDERS CO. LTD.

TRIAL BALANCE, 30TH JUNE, 1902.

	£	s.	d.	£	s.	d.
Land, Buildings, and Fixed Plant ...	47,000	0	0			
Ordinary Share Capital Account... ...				36,250	0	0
Preference ,, ...				60,000	0	0
Founders' ,, ...				2,500	0	0
Reserve Fund Account				750	0	0
Goodwill	33,000	0	0			
Loose Tools and Plant	9,400	0	0			
Stock, July 1st, 1901	7,600	0	0			
Cash	146	15	3			
Bank	6,241	3	8			
Debtors	12,601	5	9			
Creditors				7,422	1	8
Preliminary Expenses	1,265	14	9			
Discounts allowed	2,781	14	3			
Interest paid to Vendors	1,166	13	4			
Metal bought	27,935	11	1			
Wages	32,515	12	5			
Travellers' and Clerks' Salaries	2,463	15	0			
Sales				95,435	19	3
Old Tool Sales				240	0	0
Fuel	8,921	9	3			
Horses bought	280	0	0			
Bad Debts written off	109	6	3			
Returns Outwards				499	5	6
Discount received				849	2	1
Sand	2,428	14	11			
Insurance	276	19	1			
Returns Inwards	1,854	1	3			
Repairs to Plant	214	18	6			
Trade Expenses	1,533	10	9			
Carriage	1,587	1	9			
Managers' Salaries paid	1,500	0	0			
Bank Charges, less Interest	233	7	6			
Advertising and Stationery	399	7	2			
Horsekeep	489	6	7			
	£203,946	8	6	£203,946	8	6

Memoranda.

Provide for Discount on Debts, £759 17s. 2d.; Bad Debts, £200.

Write off Depreciation:—Fixed Plant, 5%, £700; Loose Plant, £928; Horses, 20%, £56.

Castings, £270 11s. 6d., have been made and used for Repairing Plant.

Managers' Salaries, £500 are owing.

Directors' Fees, £500 are owing.

Liability to Workman injured in the works has been fixed at £500 (not yet paid).

Disputed Liability to Workman, who claims £200. The Company offer £80. Undecided.

Prepare Trading Account and Profit and Loss Account and Balance Sheet.

EXERCISE 82.

Gray, White & Green are Ironfounders. From the following Trial Balance and information prepare a Trading Account, Profit and Loss Account, and Balance Sheet for the year ending 30th September, 1902.

TRIAL BALANCE, SEPTEMBER 30TH, 1902.

	£	s.	d.	£	s.	d.
Purchases—Pig Iron	6,455	9	6			
,, Coal and Coke	3,106	10	10			
,, Sand, Stores, and Sundries ...	2,060	8	0			
Sales—Castings				40,500	10	0
,, Sundries				1,020	0	6
Wages	14,500	10	0			
Maintenance and Repairs	1,006	0	0			
Rates and Water	156	0	0			
Gas	110	0	0			
Insurances	195	0	0			
Discounts and Allowances	400	0	0			
Bad Debts	70	8	6			
Travelling and Commission	721	10	0			
Stamps and Telephone	120	0	0			
Carriage and Cartage	1,206	0	0			
Salaries...	1,610	0	0			
Income Tax (Suspense)				105	0	0
Interest	450	0	0			
Cash at Bank	1,360	0	0			
Cash in Hand	105	0	0			
Loan Account...				10,000	0	0
Partners' Salaries	1,500	0	0			
Freehold Buildings and Fixed Machinery	20,000	0	0			
Plant, Tools, and Fixtures	4,500	0	0			
Models and Patterns...	2,500	0	0			
Stock on Hand, 30th Sept., 1901	13,390	0	0			
J. Gray—Capital				20,000	0	0
Sundry Debtors	19,828	3	2			
T. White—Capital				12,000	0	0
W. Green—Capital				8,000	0	0
Sundry Creditors				3,725	9	6
	£95,351	0	0	£95,351	0	0

Make the following provisions :—For Wages, £99; Carriage, £50; Bad Debts, £150; Discounts, £396 10s. 0d. ; Repairs, £70.

Credit Interest on Loan Account for half-year at 4%.

The valuations on 30th Sept., 1902, were as follows :—Plant, Tools, and Fixtures £5,000, Models and Patterns £2,650, Stock £15,000.

Credit partners with interest on capital at 5%, and divide profits or losses to Gray, White, and Green in the proportion of seven, five, and three ·ts respectively.

CHAPTER XLII

Cost Accounts

The question of "Selling Price"—i.e., upon what basis is the Manufacturer to fix the price of a finished article when he wishes to give an estimate or quote for a desired "order"—is one which ought to receive most careful attention. Too often, by shutting his eyes to actual costs, adopting a rule-of-thumb method, and simply quoting the price which he thinks the buyer will be quite willing to pay, the Manufacturer finds that he has sold his production too cheaply, and in some cases *under* the cost; the latter course, being repeated, eventually leads to exhaustion of his Capital. The object of keeping "Cost Accounts" is twofold: first, to ascertain the actual cost of any particular piece of work or article produced; and, second, to supply information for future guidance in fixing the price of any similar article for which an "estimate" or "tender" may be required.

The expression "Cost Accounts" is used to cover a great variety of systems, ranging from rough notes, kept in a penny Memorandum Book, of the (largely) estimated cost of a "job" to the most elaborate and complete system employed in a large works requiring the whole time of a separate staff of Clerks, and fitting into or dovetailing with the general Accounts in a manner which leaves nothing to be desired.

Anything approaching a full description of the working of Cost Accounts would occupy far more space than is available in this work. The details depend upon the nature and size of each Business, and involve in their practical treatment no small amount of technical knowledge of the particular Trade or Manufacture, as well as a thorough acquaintance with double-entry Book-keeping. Used in its proper significance, a system of "Cost Accounts" is a system of recording the Cost of each separate article (or aggregate of articles of the *same* kind) produced by the Factory; and to be of the most value, the system should be a *continuous* one—i.e., the costs should be recorded regularly *during the time when the article is being manufactured*, and should not simply be the result of a series

of calculations which are left to be made *after* the article is finished. The cost of an article includes three items, *Labour*, *Material*, and *Fixed Charges*, which have all to be paid for before any Profit is earned. In the following example a brief outline is given of one method of ascertaining these Costs:—

A firm of Engineers and Tool Makers have made a Lathe for Smith Bros. & Co. Ltd. at the price of £720, and for convenience we will look first at the following Summary of its Cost:—

COST BOOK SUMMARY.

Order No. 287.	LATHE for Smith Bros. & Co. Ltd., Portsmouth.					
Date. 14th June, 1902						
	£	s.	d.	£	s.	d.
Fitting	59	10	0			
Turning	50	0	8			
Planing	15	6	10			
Shaping	4	14	1			
Forging 2136 lbs. at 1d.	8	18	0			
				138	9	7
Models	19	9	3			
Castings, 412 cwts. 1.26 at 11/-	226	17	4			
Wrought Iron, 1540 lbs. at 3d.	19	17	6			
Steel, 546 lbs. at 8d.	18	4	0			
Steel Castings	1	10	3			
Brass, 670 lbs. at 1/-	33	10	0			
Cone Shaft, 3 cwt. 2.19 at 8/6	1	11	2			
Sheet Iron, 10 lbs. at 11/-	0	1	7			
Stores	2	15	6			
				323	16	7
Total Prime Cost				462	6	2
Fixed Charges: 40% on Prime Cost				184	18	10
				647	5	0
Profit				72	15	0.
Day Book fo. 452. (Weight delivered, 398 cwt. 2.0) ...			£	720	0	0

This Lathe is throughout its history referred to by its number (287), and as its "parts" are made the number is chalked upon each one. The workmen must keep a record on a Board, Slate, or Card, of the time spent on each number, or that must be done by the Foreman or a Costs Clerk. In the general Wages Book the wages of Fitters, Turners, &c., are kept in separate divisions; it is necessary to have a separate Costs Wages Book in which the Fitters' (&c.) wages are dissected under the

several order numbers, any work which is not specifically chargeable to any Order being described as a "Shop" or general expense.

COST WAGES BOOK.

Order No. 237.																					
	LATHE.																				
Fitters.	£4 0 6			£7 17 6			£13 2 6			£17 1 0			£22 17 0							
	June 28			July 5			July 12			July 19			July 26							
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.					
J. Jones ...	1	17	6	2	0	0	2	2	0	1	18	0	1	15	0					
R. Hall ...	1	5	0	0	14	0	1	19	0	0	13	6	1	2	0	And so on.				
W. Sharp ...	0	18	0	1	3	0	1	4	0	1	7	0	1	5	0					
H. Hill ...													1	14	0					

The above will suffice as an illustration of the mode of keeping the record of the cost of Labour; the figures above the "dates" shew the total amount paid up to and including each week-end, so that at any time the cost of this item can be seen by referring to this page.

The Cost of Labour in Turning, Planing, and Shaping can be shewn on separate pages in the same manner, or if the names are few, the entries can be made on the same page as Fitters. The important point is that all these should be entered *each week*, and the figures are obtained from a weekly summary of each man's time.

A Book is kept shewing the Forgings turned out of the Smith's Shop each week, these being charged against each job at a rate to cover the Smith's wages. These five items make a total of £138 9s. 7d. as cost of Labour directly chargeable to the Lathe.

Next comes "Materials," the principal item being the Castings, £226 17s. 4d. These are supplied by the Iron Foundry, and in order to arrive at the cost, a separate set of Books are kept for the Foundry, the Castings are charged as delivered at a trade price sufficient to cover the labour and materials used, and the expenses specially belonging to that Department. If a Brass Foundry is kept it will be treated similarly, but in the

example the Brass Castings are supposed to be purchased; all the other items are either specific purchases or materials used from the general stock. In order to charge these properly, one or more Storekeepers are engaged to take charge of all material bought: upon written requisitions of foremen, the Storekeeper issues material as requested for each Order Number, keeping a correct account of all goods coming in and going out. This record can be "posted" up in the Office to a Stock Book kept very much in the manner of a Ledger, with headings for each class of article or variety of material bought. This Book, if completely kept, shews the quantity of Stock which ought to be in hand at any time, and should agree with the Stock List when taken at the end of the year. Often the Foreman also keeps a record on a Card or Book of the material used, which can be checked with the Stores Book weekly so as to prevent errors and omissions. Assuming that this is correctly recorded, the total is arrived at of £323 16s. 7d. for Material, and the third item "Fixed Charges" is to be added. These include Power, Rent, Rates, Repairs, Depreciation, Expenses of Selling, Management, Discount, Bad Debts, &c., &c. It is impossible to fix the exact proportion which this important item of Fixed Charges (or Indirect Expenses) bears to each "job"; only an approximate sum can be charged, and in the example given above it is treated as being 40% upon the total cost of Labour and Materials. This question of Fixed Charges, or Indirect Expenses, is a very interesting one in Accounts, but it cannot be fully discussed here: the chief points for consideration are, should this expense be added in proportion to *Wages*, or in proportion to *Materials*, or both *Wages and Materials*: the latter principle being adopted in the example quoted. This matter will perhaps be made more clear by the following illustration: a year's Trading shews the following result in summary form:—

To Labour...	...	£10,000	0	0	By Sales		£22,000
,, Materials	...	6,000	0	0			
		16,000	0	0			
,, Expenses	...	4,000	0	0			
		20,000	0	0			
,, Profit ...	...	2,000	0	0			
		£22,000	0	0			£22,000

The "Expenses" are 40% on *Labour*, 66% on *Materials*, and 25% on *Labour and Materials*. In dealing with the succeeding year's "Costs," these rates will be useful, but they cannot be treated as exactly applicable to any one specific piece of work: experience and careful comparisons of costs are necessary in order to arrive at a satisfactory solution of this difficult problem.

The following is an example of a Cost-Sheet used by a Printer and Lithographer; the sheet follows the job through each stage of work, and is filled up by each Foreman with the cost incurred in each department. Nothing appears on this form for "Fixed Charges," or selling price, as these are not intended to be known in the works. In the office, the order having been executed, a summary Cost Book (or Books) is written up from these sheets, containing columns headed with each item of cost, and also columns for "Fixed Charges" and "Selling Price." It is possible if this method is carried out to agree within a small amount the final results of the Cost Books with the actual result of the ordinary Account Books, and any falling off in nett profit can be "located" to its proper department.

PRINTER'S COST SHEET.

Customer's Name _____ Date of Order, ... 1902.

,, Address _____

Description of Goods _____

Printer.

Case. Setting .....

Alterations .....

Imposition .....

.....Formes,.....Pulls,.....Hours.

.....Formes,.....Runs,.....Hours.

		Formes.	Runs.	Making Ready. H.	Making Ready. M.	Stoppages. H.	Stoppages. M.	Working. H.	Working. M.	Total. H.	Total. M.
	American										
	Two Colour										
	Large										
Cut	Small										
Pack.....	Jobber										

Ink..... ....lbs. @.....

Lithographer.

Sketch—Artist..... .....Cost.....

Plate—Engraver..... .....Cost..... .....

Drawing—Artist..... .....Cost..... .....

Writing—Writer.... ....Cost.....

Transferring ....

Proofing ....

Alterations ....

Working ....Runs .....Hours..... .....

Ink .....Bronze .....Bronzing .....

Space also being provided for Paper used, Stereotyping, Ruling, Binding, Carriage, Packing, &c.

Card System.—This can only be mentioned as the latest development of accounting in connection with Costs; the theory being that a continuous daily (or hourly) record of labour and material consumed upon a particular piece of work is necessary: that these records are often required for reference by several persons: that Books are not adapted to meet such requirements, and that separate Cards are therefore the best means of accomplishing these objects. It is obvious that a Book contains gradually more and more "dead" matter, i.e., records of past transactions which have been completed and are seldom required for reference; a Card contains only entries relating to a "living" or current transaction and operation.

Further information can be obtained from special works, such as "The Complete Cost-Keeper," by H. L. Arnold *(Engineering Magazine Press).*

EXERCISE 83.

A Cashier balanced his Cash Book at the end of a month, bringing down a balance of £35 11s. 8d.; he then counted his cash and found he had only £23 16s. 6d. On going carefully through the month's transactions he found that £9 1s. 6d. paid in cash had been entered in the Bank Column; the total of a previous page of receipts, £503 5s. 0d., was brought forward on to the following page as £505 3s. 0d.; the discount, 10s., on an account paid by cheque, had been entered in the Cash Column as a payment instead of in the Discounts Column; £2 received from a partner for payment of a private account had been included in the cash in hand, but not entered in the cash book. Rule a form of Cash Book, enter the balance brought down and make entries to correct the errors above mentioned. How should the deficiency in cash still unaccounted for be dealt with?

EXERCISE 84.

A Trader pays all monies received into his Bank, and pays all accounts by cheque. State any arguments for or against this method.

What are the advantages of a Monthly Pay Day?

What is the meaning of a "Reserve Fund Account?" and on which side of the Balance Sheet should it appear?

How should the following matters be dealt with?—

Liability on £2,500 Bills discounted.

Trade Discount on Sales.

Cheque sent to Creditor and lost in transit.

Expenditure on Alterations to Buildings (leasehold).

CHAPTER XLIII

Income Tax

Income Tax is assessed annually under several "heads" or Schedules. The Tax on Profits of Trade is assessed under the heading of "Schedule D." The Tax on Income (Rents) from property is assessed under "Schedule A," and is usually referred to as "Property Tax." Schedule D is the matter chiefly connected with our subject.

Each year, in April or May, the Surveyor of Taxes sends a form of return called the "Schedule D" to the Trader, and in this form the "Statement of Income" for the National financial year ending 5th April following must be entered. It is, of course, impossible for the Trader to say a year beforehand what his Profits will be, and therefore the amount of the Return is to be arrived at by taking the average of the *three* preceding years ending on the 5th April last, or on any prior date to which the Annual Accounts of the business have been usually made up. If the business has been commenced within three years, the average from the period of commencement is to be taken. (If the business has been commenced within the year of Assessment, the profits are to be estimated according to the Trader's best knowledge and belief.) So that in the case of a Trader whose business has been established several years, and whose Accounts are made up to 31st December each year, the "Return" for the year *ending* 5th April, 1903, will be based upon the average profit for the three years ending 31st December, 1899, 1900, and 1901.

In the case of a Trader commencing business July 1st, 1900, and whose Accounts are made up to 30th June, 1901, the "Return" for the year ending 5th April, 1903, will be based upon the profits for the *one* year ending 30th June, 1901.

There are certain items of expenditure which, according to the Income Tax Acts, are *not* to be charged as expenses of the business in arriving at the Profit for the purposes of Assessment, and these include—

Interest on Capital.
Interest on Loans (except Bank Interest).

Partners' Salaries.
Depreciation of Land, Buildings, or Leases.
Income Tax or Property Tax.
(a) Depreciation of Machinery.

[(a) This is not to be charged in the Accounts, but an Allowance may be claimed in respect of it, as a deduction from the "Return."]

In the case of a Trader occupying his *own* premises solely for trade purposes, he is allowed to charge as "Rent" the amount upon which Property Tax has been paid (Schedule A).

It follows that the nett balance shewn by the Trader's Profit and Loss Account each year will differ considerably from the figures upon which his "Return" is to be based. Suppose that the Profit and Loss Account for the years 31st December, 1899, 1900, and 1901 shewed nett profits of £470, £540, and £590 respectively, and that the Trader has each year charged a salary for himself, Interest on his Capital and Depreciation on Machinery, and has paid Interest on a Loan and Income Tax and Property Tax, the following Statement will shew how the figures are adjusted :—

	Year ending Dec. 31st.		
	1899.	1900.	1901.
	£	£	£
Profit as per Profit and Loss Account	470	540	590
Add Trader's Salary Charged	100	150	150
,, Interest on Capital Charged	130	140	100
,, Interest on Loan	100	100	100
,, Depreciation on Machinery	120	125	140
,, Income Tax and Property Tax	45	57	65
	965	1,112	1,145
Deduct Rent of own Premises	100	100	100
	865	1,012	1,045

	£
Adjusted Profit, 1899	865
,, 1900	1,012
,, 1901	1,045
Three Years' Total	£2,922
Annual Average	974
Less Wear and Tear of Machinery, say	140
Amount of "Return" ...	£834

The above *details* are not to be entered on the Schedule, but only the Annual Average £974, less Wear and Tear, &c., £140 = £834 nett Income for assessment. The Trader should keep a note of the above details so that he can shew, if necessary, how his figures have been arrived at.

The Schedule is sent to the Surveyor of Taxes, and in due course the Income Tax Commissioners for the District make an *Assessment*, and send notice to the Trader stating the amount upon which they have assessed him under Schedule D. This amount does not always agree with the Trader's "Return": the Commissioners may fix a higher amount if they consider that the return sent in is incorrect. The Trader has then the right of Appeal; he must give notice that such is his intention, and prior to the hearing before the Commissioners he must send in a Trading Account for the three years ending on the last date to which the Accounts have been made up. In many cases, however, the matter can be settled by an interview with the Surveyor of Taxes, if the Trading Account has been properly kept.

Certain Abatements are allowed if the Total Income from all sources (not merely profits arising out of the business) does not exceed stated limits, and Partners in a firm are entitled to be assessed separately, so that each will receive the abatement to which he is entitled. Also the Trader is entitled to deduct from his Profits all Life Insurance Premiums paid, up to one-sixth of his Income; this does not apply to premiums paid to Foreign Life Assurance Companies, so as a rule such Companies themselves allow the Assured to deduct the Tax when paying the Premium.

The Abatements (which are liable to alteration each year) are for the Government year 1902-3 :—

Where Income not exceeding	£160					Total Exemption.	
,, exceeding	£160	and not exceeding	£400			Abatement of	£160.
,, ,,	£400	,, ,,	£500			,,	£150.
,, ,,	£500	,, ,,	£600			,,	£120.
,, ,,	£600	,, ,,	£700			,,	£70.

So that in the case of a Partnership whose total profit is £1,200, divisible between two Partners, No. 1 taking two-thirds and No. 2 taking one-third, the amount assessable upon the Partners would be

No. 1			£800
No. 2	£400		
Less abatement	160		
		240	
Total ...			£1,040

EXERCISE 85.

The following is Patrick Bleasby's first year's TRADING AND PROFIT AND LOSS ACCOUNT:—

1902.		£	1902.		£
Dec. 31	To Purchases ...	5,480	Dec. 31	By Sales	7,690
,,	,, Salaries & Wages (including P. Bleasby, £208)	1,265	,,	,, Stock	2,085
,,	,, Rates, Gas, and Water ...	80			
,,	,, Property Tax ...	11			
,,	,, Working Expenses...	1,363			
,,	,, Depreciation:— Buildings ...	85			
	Machinery ...	175			
,,	,, Interest on Mortgage	55			
,,	,, Bank Interest ...	15			
,,	,, Interest on Capital ...	400			
,,	,, Nett profit ...	846			
		£9,775			£9,775

Prepare a Trading Account to submit to the Surveyor of Taxes.

EXERCISE 86.

The firm of Mansfield, Fane & Co. consists of three partners, Reginald Mansfield, Max Mansfield, and Wallace Fane, having Capital respectively of £5,000, £3,000, and £2,000.

The firm owned the premises in which it carried on business.

The profits for the year ended 31st December, 1900, were £900.
,, ,, ,, 1901, ,, £800.
,, ,, ,, 1902, ,, £1,200.

Before arriving at these profits the following charges were made:—
Interest on Capital at 5%.
Depreciation at 5% on Buildings and Machinery standing in the books at £1,500 and £3,500 respectively.
Salaries of Partners £100 each.

Income Tax has been charged direct to Partners' Accounts.
Reginald Mansfield takes one-half of the nett profits.
Max Mansfield ,, one-third ,,
Wallace Fane ,, one-sixth ,,

Assuming the Partners have no other sources of Income and that they wish to be assessed separately, shew how you would arrive at the amounts upon which they should be assessed for Income Tax.

CHAPTER XLIV

Joint Accounts

When two or more persons, who are not in partnership with each other, join in a particular transaction, or series of transactions for their common advantage, the matter is described as a "Joint Adventure," and becomes the subject of a "Joint Account." These are not of such frequent occurrence now as formerly, owing to the increased facilities which the individual trader now possesses for carrying out on his *own* behalf, and at his own risk, any speculation which appears to offer chances of success. However, when a "joint" transaction is entered upon, it often happens that the parties find themselves in some uncertainty as to their mutual financial positions: this is especially the case when they *each* receive and pay monies, and buy and sell goods in connection with the adventure, matters being more clear and intelligible when only *one* party conducts all the operations until the affair is carried to its completion.

The following set of transactions on Joint Account, taken from *Mair's Book-keeping*, published 1736, affords an interesting example of the apparently complicated nature of such dealings, whose results, however, are perfectly clear when recorded by the "double-entry" method.

In most cases of this kind the Cash and Goods pass through the hands of both the parties, there is no "common" fund or Stock; each party receives and pays Cash, and buys and sells Goods without regard to his proportionate share in the adventure, a mutual settlement being left until all the dealings are at an end. It is therefore necessary to keep a Joint Account of the whole transactions, such account being distinct and apart altogether from the Books of either party, and the most convenient method is to use simply a Journal and Ledger. (Actual Books are not required unless the transactions are very numerous, and loose sheets of paper will suffice.)

"Two tradesmen, Hugh and Henry, agree to go equal halves in a Cargo of Timber from Norway, and accordingly, on March 1st,

1736, they freight a ship, and purchase some small wares, which, with charges at shipping, cost them £19 14s. 0d. each. This petty cargo they consign to A. B., their Factor at Bergen, which he disposes of, and in return ships on board the same ship 4,000 Deals and 100 Square Pieces; and he draws on Hugh at sight for £25, this being the amount of the Factor's Disbursements over and above the nett Proceeds of the Cargo consigned to him. Hugh accepts and pays the Bill. On April 1st the Ship arrives, upon which Hugh pays Custom, Haulage, Cartage, Pilage, &c., £67 10s. 0d.; Henry pays the Freight, which amounted to £98 12s. 0d. On April 4th Hugh sells 1,000 of the Deals to Joseph Stanhope for £47 18s. 4d. and receives £30, and on April 10th Henry received the rest.

"About this time Henry happens to build a House, and has occasion for 1,400 Deals, which he takes on April 14th, and, with Hugh's consent, values at £58 6s. 8d. He also takes 10 of the Square Pieces, valued at £9 10s. 0d. Hugh sells the other 1,600 Deals on April 20th to George Steel for £76 13s. 4d., and a month after accepts £76 10s. 0d. in full payment. Hugh next sells, on April 25th, the other 90 Square Pieces, in barter for 30 Hogsheads Linseed, which he and Henry part equally betwixt them. The Timber being thus disposed of, Hugh brings in his Bill of Proper Charges and Commission, which amounted to £4 10s. 8d., and desires to have Accounts stated betwixt him and Henry:—

1

JOURNAL.

17	36			£	s.	d.	£	s.	d.
Mar.	1	Joint Adventure A/c. *Dr.*	1	39	8	0			
		To Hugh	2				19	14	0
		To Henry	3				19	14	0
		For Cash paid by them for Small Wares, Charges and Shipping.							
	20	Joint Adventure A/c. *Dr.*	1	25	0	0			
		To Hugh	2				25	0	0
		For Sight Bill paid by him to A. B. for Cost of 4000 Deals and 100 Square Pieces, and his disbursements over and above nett proceeds of Cargo consigned to A. B.							
Apl.	1	Joint Adventure A/c. *Dr.*	1	166	2	0			
		To Hugh, for Cash paid by him for Custom, Haulage, Cartage, Pilage, &c.	2				67	10	0
		To Henry, for Cash paid by him for freight	3				98	12	0
	4	Joseph Stanhope *Dr.*	4	47	18	4			
		To Joint Adventure A/c.... ...	1				47	18	4
		For 1000 Deals.							
	,,	Hugh *Dr.*	2	30	0	0			
		To Joseph Stanhope	4				30	0	0
		For Cash.							
	10	Henry *Dr.*	3	17	18	4			
		To Joseph Stanhope	4				17	18	4
		For Cash.							
	14	Henry *Dr.*	3	67	16	8			
		To Joint Adventure A/c.... ...	1				67	16	8
		For 1400 Deals £58 6s. 8d. and 10 Square Pieces £9 10s. 0d.							
	20	George Steel *Dr.*	5	76	13	4			
		To Joint Adventure A/c.... ...	1				76	13	4
		For 1600 Deals.							

2 JOURNAL—*continued.*

1736				£	s.	d.	£	s.	d.
Apl.	25	Hugh *Dr.*	2	42	15	0			
		Henry *Dr.*	3	42	15	0			
		To Joint Adventure A/c.	1				85	10	0
		For Linseed taken in exchange for 90 Square Pieces value, say, 19/- each.							
May	20	Hugh, for Cash received by him *Dr.*	2	76	10	0			
		Joint Adventure A/c., for discount allowed *Dr.*	1	0	3	4			
		To George Steel	5				76	13	4
	,,	Joint Adventure A/c. *Dr.*	1	4	10	8			
		To Hugh	2				4	10	8
		For his proper charges and commission.							
	,,	Joint Adventure A/c. *Dr.*	1	42	14	4			
		To Hugh	2				21	7	2
		To Henry	3				21	7	2
		For their shares of profit on adventure.							

LEDGER.

1 *Dr.* JOINT ADVENTURE ACCOUNT. *Cr.* 1

1736			J	£	s.	d.	1736			J	£	s.	d.
Mar.	1	To Sundries, for Small Wares, Charges, and Shipping	1	39	8	0	Apl.	4	By Joseph Stanhope, 1,000 Deals ...	1	47	18	4
	20	,, Hugh, A. B.'s A/c....	1	25	0	0		14	,, Henry, 1400 Deals and 10 Sq. Pieces	1	67	16	8
Apl.	1	,, Sundries, for Customs, &c., and Freight	1	166	2	0		20	,, George Steel, 1600 Deals	1	76	13	4
May	20	,, George Steel, Discount	1	0	3	4		25	,, Sundries, 90 Sq. Pieces	1	85	10	0
	,,	,, Hugh, Charges and Commission... ..	1	4	10	8							
	,,	,, Hugh, Half-Share Profit...	1	21	7	2							
	,,	,, Henry, Half-Share Profit...	1	21	7	2							
				277	18	4					277	18	4

LEDGER—*continued.*

2 | *Dr.* | HUGH. | *Cr.* | 2

173			J	£	s.	d.	173			J	£	s.	d.
Apl.	4	To Cash, Stanhope ...	1	30	0	0	Mar.	1	By Cash	1	19	14	0
	25	,, Linseed	1	42	15	0		20	,, Cash, Sight Bill ...	1	25	0	0
May	20	,, Cash, Steel	1	76	10	0	Apl.	1	,, Cash	1	67	10	0
							May	20	,, Charges and Commission } ...	1	4	10	8
									,, Half-Share Profit	1	21	7	2
									,, Balance down ...	✓	11	3	2
				149	5	0					149	5	0
May	20	To Balance	✓	11	3	2							

3 | *Dr.* | HENRY. | *Cr.* | 3

173			J	£	s.	d.	173			J	£	s.	d.
Apl.	10	To Cash, Stanhope ...	1	17	18	4	Mar.	1	By Cash	1	19	14	0
	14	,, 1400 Deals, 10 Square Pieces ...	1	67	16	8	Apl.	1	,, ,, ...	1	98	12	0
							May	20	,, Half-Share Profit	1	21	7	2
	25	,, Linseed	1	42	15	0							
May	20	,, Balance down ...		11	3	2							
				139	13	2					139	13	2
							May	20	By Balance		11	3	2

4 | *Dr.* | JOSEPH STANHOPE. | *Cr.* | 4

173			J	£	s.	d.	173			J	£	s.	d.
Apl.	4	To 1000 Deals	1	47	18	4	Apl.	4	By Cash paid Hugh...	1	30	0	0
								10	,, ,, Henry	1	17	18	4

5 | *Dr.* | GEORGE STEEL. | *Cr.* | 5

173			J	£	s.	d.	173			J	£	s.	d.
Apl.	20	To 1600 Deals	1	76	13	4	May	20	By Cash	1	76	10	0
									,, Discount	1	0	3	4

The above Accounts shew that a profit of £42 14s. 4d. was made on the joint adventure, and that Hugh owes Henry £11 3s. 2d. When Hugh pays this debt the Accounts should be closed.

The foregoing Joint Account should be kept by one of the parties, who will be regularly informed by the other of all that has taken place. In addition to this, of course, each party will enter in his own Books his own transactions connected with the Joint Account. Assuming that Hugh paid Henry £11 3s. 2d. on 31st May, the entries in Hugh's Ledger will be as follows:—

HUGH'S LEDGER.

Dr. JOINT ADVENTURE (WITH HENRY). *Cr.*

1896			£	s.	d.	1896			£	s.	d.
Mar.	1	To Cash	19	14	0	Apl.	4	By Cash, Stanhope	30	0	0
	20	,, Cash, Sight Bill to A.B.	25	0	0		25	,, Linseed	42	15	0
Apl.	1	,, Cash, Custom, &c.	67	10	0	May	20	,, Cash, Steel ...	76	10	0
May	20	,, Charges and Commission	4	10	8						
	,,	,, Profit and Loss Account for Half-Share Profit ...	21	7	2						
	,,	,, Balance down ...	11	3	2						
			149	5	0				149	5	0
May	31	To Cash, Henry ...	11	3	2	May	20	By Balance due to Henry	11	3	2

EXERCISE 87.

Jones & Robinson are Merchants, and on the 1st July, 1895, after adding profits for the past half-year, Jones' capital in the firm amounted to £3,000 and Robinson's to £2,000. On the 1st July, 1895, they take into partnership their senior clerk Smith, upon the following terms, viz., Smith to bring in £500 as capital and each partner to be credited with interest on his capital at 5% per annum. All profits (after debiting interest) up to £1,000 are to be shared by Jones & Robinson exclusively in proportion to the amounts of their capital as on 1st July, 1895. All profits in excess of £1,000 are to be shared equally by the three partners. Accounts are to be prepared and profits and interest credited half-yearly. Smith is to be credited with a salary of £200 per annum without reference to profits earned. On the 31st December, 1895, the Profit and Loss Account (after debiting Smith's salary, but without charging interest on partners' capital) shewed a credit balance of £1,500. The partners' withdrawals, upon which no interest need be charged, were Jones £500, Robinson £400, and Smith £150. Draw up the partners' separate accounts as they should stand on 1st January, 1896.

EXERCISE 88.

Bell & Cox agreed to import into this country from Australia a quantity of timber. On March 1st, 1895, they opened a banking account in their joint names, to the credit of which Bell paid £700 and Cox £500, and agreed to divide profits or losses in proportion to these amounts. From this account £900 was remitted to Australia for cost of timber, £50 for agent's charges, and £200 was paid for freight and other charges. On September 1st, 1896, they had realised by various sales £1,200, which had been paid to the joint account, and each partner had been paid thereout the amount he had advanced. They agreed to close the adventure, Bell taking over the unsold timber at the price of £190. Make out the accounts, and shew by what process the transaction would be closed.

CHAPTER XLV

MISCELLANEOUS

EXAMPLE OF MONTHLY RETURN.

31st July, 1902.	A Dept.			B Dept.			C Dept.			Total.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Stock at beginning of month ...	326	15	8	745	4	9	293	12	7	1365	13	0
Purchases	158	10	9	378	12	4	176	5	2	713	8	8
	485	6	5	1123	17	1	469	17	9	2079	1	3
Less Sales (at cost price) as below...	181	17	6	325	3	8	145	10	8	652	11	10
Stock (estimated) at end of month...	303	8	11	798	13	5	324	7	1	1426	9	5
Sales	242	10	0	464	11	0	218	6	0	925	7	0
Less Gross Profit: say A 25%, B 30%, C 33⅓%	60	12	6	139	7	4	72	15	4	272	15	2
Estimated cost of Goods sold ...	181	17	6	325	3	8	145	10	8	652	11	10

CASH SUMMARY.

	£	s.	d.		£	s.	d.
To Balance at Bank, July 1st	386	17	4	By Sundry Creditors (Dis. £35)	646	15	8
,, Cash in hand ,,	24	10	9	,, Wages Paid	68	17	8
,, Sundry Debtors (Dis. £24 16s. 3d.)	767	14	8	,, Expenses Paid	57	4	11
,, Cash Sales	87	16	9	,, Partners' Withdrawals ...	80	0	0
,, Old Machine sold... ...	2	10	0	,, Balance at Bank, July 31st	398	15	7
				,, Cash in hand	17	15	8
	1269	9	6		1269	9	6

This form shews the main items of the month's business, and is convenient for furnishing regular information to proprietors who may not be in constant attendance at the place of business. The first portion shews the Turnover and the estimated Stock on hand; the second portion, prepared from the Cash Book, shews the receipts and payments in summary form. If desired, addi-

tional columns can be used for the insertion, in red ink, of the figures of the corresponding month of previous year.

Investment Account.—The following Example shews the true method of dealing with accrued Interest at date of Purchase or Sale:—

Dr. VICTORIA GOVERNMENT. 3½% Inscribed Stock. *Cr.*

				£	s.	d.	£	s.	d.					£	s.	d.	£	s.	d.
190 May	2 24	To Cash, £5000 at 98½ ...					4925	0	0	190 June	2 30	By Cash, 144 days' Int.					65	5	3
		,, Cash, Contract St'mp					0	1	0			,, Balance down ...					4884	8	3
		,, Brokerage, ½% ...					24	12	6										
							4949	13	6								4949	13	6
		,, Balance, nett cost ...					4884	8	3										
190 Feb.	3 16	,,Accrued Int. transferred	✓				21	6	0	190 Feb.	3 16	By Cash, Sale at 99½ ...					4962	10	0
		,, Profit ...					31	17	3			Less Brokerage, &c....					24	18	6
							4937	11	6								4937	11	6
190 June	2 30	To Interest, 37 days, Tax at 1/3		16	15	5				190 June	2 30	By Cash ...		16	15	5			
Dec.	31	,, Interest, half-year, Tax at 1/3		82	0	8				Dec.	31	,, do. ...		82	0	8			
190 Feb.	3 16	,, Interest, 47 days, Tax at 1/3		21	6	0				190 Feb.	3 16	,, Transfer...	✓	21	6	0			

Interest on the above Stock is payable 30th June and 31st December; therefore, when the purchase is made on 24th May, the price includes the accrued Interest from 1st January, which at 3½% Interest, less Income Tax at 1s. 3d., amounts to £65 5s. 3d. When the first half-year's Interest is received on 30th June (total, £82 0s. 8d.), the proportion to 24th May, £65 5s. 3d., is posted to the credit of the *Investment*, and the remainder, which represents the Interest from the date of purchase to 30th June, £16 15s. 5d., is treated as *Income*. The items in the *inner* column on each side of the account are the Income Account.

When the Stock is sold on 16th February, 1903, the price realised includes the accrued Income from 1st January, amounting to £21 6s. 0d.: this sum is treated as Income earned, and is debited to the Investment and credited in the Income column. The nett result of these entries is that *Income* receives its proper earnings from the date of purchase to the date of sale, 268 days. If the apportioning is disregarded, and all the Interest received is treated as Income, then the latter will only be credited with a half-year's Interest (June 30th, 1902) = 181 days, whilst the cash has been invested 268 days.

Dr. MACHINERY AND PLANT ACCOUNT. *Cr.*

Date.		Folio.	Total.	Machinery. 5%	Cards. 35%	Gears and Slays. 50%	Bobbins and Shuttles 25%	Press Papers. 30%	Belting. 15%	Sundry Utensils 10%	Date.		Folio.	Amount.
1901 Jan. 1	To Balance		£ s. d. 10,544 0 0	£ s. d. 7300 0 0	£ s. d. 1260 0 0	£ s. d. 256 0 0	£ s. d. 840 0 0	£ s. d. 108 0 0	£ s. d. 420 0 0	£ s. d. 360 0 0	1901 Mar. 31	By Old Loom Sold		£ s. d. 28 0 0
June 30	,, Cash (Shuttles)		64 0 0				64 0 0				Dec. 31	,, Depreciation ...		1296 0 0
Sep. 30	,, Cash (Cards)...		160 0 0		160 0 0									1322 0 0
			10,768 0 0	7300 0 0	1420 0 0	256 0 0	904 0 0	108 0 0	420 0 0	360 0 0	,, ,,	Balance down..		9446 0 0
														10,768 0 0
Dec. 31	Less Credits			390 0 0	455 0 0	128 0 0	218 0 0	32 0 0	63 0 0	36 0 0				
1902 Jan. 1	To Balance	✓	9446 0 0	6910 0 0	965 0 0	128 0 0	686 0 0	76 0 0	357 0 0	324 0 0				

In the above example the Plant is kept in *one* Ledger Account, but is divided under various headings, according to the estimated rate of annual Depreciation; the rates of Depreciation are stated, and at the end of the year the amount to be written off is calculated for the correct period—e.g., Bobbins and Shuttles, £840 for one year @ 25% = £210, and £64 for six months = £8; total Depreciation, £218.

Example of a Brewery Trading Account, shewing Production and Cost per Barrel.

Dr. TRADING ACCOUNT FOR YEAR ENDING 30TH SEPTEMBER, 1902. *Cr.*

Per Barrl. £ s. d.														
	To Materials used:							Barrels.	£	s.	d.	£	s.	d.
	Malt	4286	13	9				By Sales 14396				25694	8	7
	Hops	1805	3	4				Less Returns 119	294	7	8			
	Sugar	567	12	2				14277						
0 9 9·35	Sundries ...	285	6	6				Less Discount ...	3416	2	9	3710	10	5
					7034	15	9					21983	18	2
0 6 1·3	,, *Duty*				4375	12	4							
	,, *Brewing Charges:*							By Increase in						
	Brew'y & Labo'r	724	13	8				Stock ... 48				87	12	3
0 1 6·74	Fuel, &c. ...	392	17	5										
					1117	11	1							
0 13 8·71	,, Gross Profit ...				9830	16	7	Production 14325				22071	10	5
1 11 2·6					22358	15	9	,, Grains and Yeast				287	5	4
	,, *Sale & Office Exs.:*													
	Travellers' Sals.	426	5	9				£1 11 2·6 per Barrel =				22358	15	9
	,, Expenses	284	3	11										
	Mangrs. & Clks.	943	15	0				By Gross Profit, 13s. 8·71 per Barrel				9830	10	7
	Stationery and Advertising ...	185	6	2										
0 2 6·82					1839	10	10							
	,, *Delivery Expns.:*													
	Draymen ...	572	12	5										
	Carriage and Cartage ...	645	14	3										
	Horsekeep ...	743	5	8										
0 2 8·86					1961	12	4							
	,, *General E'penses:*													
	Fire Insurance	85	0	0										
	Licences ,,	192	16	8										
	Allowances ...	214	3	5										
	Trade Expenses	257	11	7										
	Bad Debts ...	122	2	10										
0 1 2·61					872	14	6							
	,, *Repairs:*													
	Plnt. & Mchnry.	256	4	3										
	Property ...	196	7	4										
	Casks	76	9	11										
	Carts & Harness	48	10	3										
0 0 9·60					577	11	9							
	,, *Depreciation:*													
	Leaseholds ...	320	15	4										
	Plnt. & Mchnry.	172	10	0										
	Casks	200	0	0										
	Carts & Harness	50	0	0										
	Horses	120	0	0										
0 1 2·70	Furniture ...	15	0	0										
					878	5	4							
0 0 2·12	,, *Rates*				126	17	3							
0 0 2	,, *Bank Charges* ...				114	2	11							
0 8 10·71					6370	14	11							
0 4 10	,, Balance to Profit and Loss A/c.				3460	1	8							
0 13 8·71					9830	16	7					9830	16	7

EXERCISE 89.

On 1st January, 1902, an Investor places £10,000 on Deposit at his Bankers at 2½%. On 1st February he pays for £4,000 North Eastern Railway Stock at 155, plus expenses £20. On 1st March he receives N.E.R. Dividend at 6% per annum for half-year ending 31st December last, less Tax at 1s. 2d. On 30th April he pays for £1,000 North Staffordshire Railway Stock at 126, plus expenses £7. On 1st June he receives cash for £2,000 North Eastern Stock sold at 160, less expenses £9. The dividends for half-year ending 30th June, 1902, are (say) North Eastern 6½% per annum, North Staffordshire 4%, and the Income Tax is 1s. 2d. in £. All the cash goes into and out of the Deposit Account at Bank. Prepare accounts shewing his Capital at 30th June, 1902, and the Income he has earned, taking Stocks at cost price.

EXERCISE 90.

C. and D. buy on joint account 1,000 Mining Shares at 30s., plus expenses £10. C. contributes one-third and D. two-thirds of the price (all the monies passing through a joint Banking Account); 600 Shares are sold at 32s. 6d., less expenses £7 5s., and 310 Shares are sold at 31s., less £5 expenses. They divide the balance of the shares at cost price, and also any profit or loss, in proportion to their original contributions. Prepare accounts shewing the position at the close of the venture.

EXERCISE 91.

A merchant has in stock at December 31st a quantity of goods purchased in September for £1,200. He could not buy these in December for less than £1,400. Give your opinion as to the value he should place upon these goods in taking stock December 31st, and state the considerations upon which that opinion is based.

EXERCISE 92.

The following is the Trial Balance of the Cyclops Machinery Co. Ltd. at December 31st, 1898:—

	£ s. d.	£ s. d.
Ordinary Share Capital Account, 2,000 Shares at £10		20,000 0 0
Preference Share Capital Account, 6%, 2,000 Shares at £10		20,000 0 0
5% Debentures		10,000 0 0
Stock, January 1st, 1898	13,294 6 9	
National Bank, Ltd.		15,746 9 8
Discounts allowed	1,291 13 4	
Carriage	1,129 3 6	
Patterns	7,623 14 6	
Sundry Creditors		3,658 11 2
Rates, Taxes, Gas, &c.	1,121 2 3	
Patents, Trade Marks, &c.	3,260 0 0	
Advertising	324 11 9	
Sundry Debtors	4,691 13 11	
Freehold Land and Buildings	24,320 0 0	
Wages	26,081 2 5	
Agency Expenses and Commission	259 13 4	
Sales		64,290 14 1
Trade Expenses	963 4 7	
Debenture Interest	500 0 0	
Rents Received		246 11 1
Repairs	1,192 14 7	
Bad Debts	896 11 2	
Plant and Machinery	18,090 16 4	
Revenue Account, Balance January 1st, 1898		659 13 2
Cash in hand	417 1 1	
Goodwill	5,000 0 0	
Discounts received		493 2 1
Material purchased	24,637 11 9	
	£135,095 1 3	£135,095 1 3

The Stock at 31st December, 1898, is £11,486 15s. 9d. Make the following provisions:—2½% Discount upon Sundry Debtors' Balances, £486 estimated further Loss for Bad Debts, 5% Depreciation upon Plant, 10% Depreciation upon Patterns, 20% Depreciation upon Patents and Trade Marks. After charging Interest, set aside 5% of Nett Profit to a Workpeople's Insurance Fund Account.

Give Profit and Loss Account and Balance Sheet.

Shew proposed appropriation of Nett Profit.

EXERCISE 93.

ROBINSON, RHODES & CO. LTD.

TRIAL BALANCE, 31ST DECEMBER, 1902.

	£ s. d.	£ s. d.
4½% First Mortgage Debenture Stock ...		40,000 0 0
50,000 5% Cumulative Preference Shares of £1		50,000 0 0
60,000 Ordinary Shares of £1		60,000 0 0
Reserve Fund Account		10,000 0 0
Land and Buildings...	57,000 0 0	
Fixed Plant	4,491 10 0	
Machinery and Loose Tools	13,128 5 0	
Stock, 1st January, 1902	34,680 12 6	
Debenture Interest, paid June 30th, less Tax at 1s. 2d.	800 8 4	
Preference Dividend, paid June 30th, less Tax at 1s. 2d.	1,177 1 8	
Horses, Carts, and Harness	765 10 0	
Debtors considered "Good"	42,703 15 2	
,, ,, "Bad"	470 0 0	
Bad Debts written off	1,241 10 0	
Patents and Goodwill	27,000 0 0	
Bank of England	3,519 10 3	
Repairs	680 6 8	
Rates and Taxes	1,289 2 5	
Insurance	184 7 6	
Cash in hand...	41 8 7	
Discounts received		692 17 3
Discounts allowed	1,421 8 3	
Creditors		6,781 15 6
Fuel	2,192 13 9	
Agents' Commission	2,410 8 10	
Sales		78,306 14 7
Purchases, less returns	19,639 16 9	
Wages	27,395 4 2	
Travelling Expenses	718 10 0	
Trade Expenses	1,503 5 6	
Returns Inwards	2,014 2 11	
Interest		91 4 2
Machinery bought July 1st, 1902... ...	246 2 6	
Profit and Loss Account Balance, January 1st, 1902...		842 9 3
	£246,715 0 9	£246,715 0 9

Prepare Balance Sheet and Profit and Loss Account, 31st December, 1902.

1902.

Dec. 31st. The following Liabilities are not included above:—Wages, £248 5s. 9d.; Rates, £65; Taxes, £406; Fire Insurance, £40, is prepaid. Charge Depreciation 7½% per annum on Machinery; 6% per annum Fixed Plant; 10% per annum Horses, Carts, &c. Write off Patents £500. Provide Discount 2½% on "Good Debts." Stock, 31st December, 1902, is £30,841 3s. 2d. The Manager is entitled to a Commission of 2½% upon the Nett Profit earned during the year after adding £2,000 to Reserve Fund Account and charging Debenture Interest.

EXERCISE 94.

1899. JOINT TRANSACTIONS.

Jan. 2nd. A. and B. unite in the Purchase of 100 Articles, costing £1,000, from C. B. contributes £200, they borrow £500 from Borough Bank, and give C. their Joint Acceptance at six months for the balance.

Jan. 18th. They Sell to D. 40 Articles at £12 10s. 0d., and receive on the same day £300 on Account. B. retains £100 and pays remainder to Bank. On Jan. 31st D. returns four articles, which B. agrees to take himself at cost prices. On Feb. 28th D. pays to A. the balance due, less £5 allowance. A. recoups himself £10 for expenses, and pays to B. the balance due to him, with £1 for interest; the remaining cash is paid to Bank.

Mar. 30th. They Sell to E. 58 Articles at £12 5s. E. pays £410 cash, which is handed to Bank. E. gives three months' Bill for £300, and is allowed 10s. discount.

,, ,, A takes two Articles at £11 each (does not pay for them).

,, ,, They hand E.'s Bill to C. in exchange for their own acceptance Jan. 2nd.

,, ,, Bank charges Interest £3.

,, ,, Divide Profit equally and pay out each Partner.

EXERCISE 95.

SALISBURY & BATH, TIMBER MERCHANTS AND WOOD TURNERS.

TRIAL BALANCE, 31ST DECEMBER, 1900.

	£	s.	d.	£	s.	d.
R. Salisbury, Capital Account				5,000	0	0
Jas. Bath, Capital Account...				4,000	0	0
Sales				10,066	18	1
Stock, July 1st, 1900...	2,540	3	9			
Purchases (Timber)	7,983	19	11			
Bills Payable				3,000	0	0
Debtors	4,200	0	0			
Creditors				2,076	10	4
Carriage on Purchases	195	6	5			
Carriage Outwards	304	13	7			
Repairs and Renewals	117	3	8			
Coal	92	16	4			
Gas and Water	24	9	8			
Ground Rent	95	10	4			
Oil, Grease, and Waste	42	15	11			
Rates, Taxes, and Insurance	74	7	7			
Bank Interest...	17	4	1			
Discounts and Allowances	214	17	2			
Bad Debts	64	3	1			
Buildings, Fixed Machinery, and Plant ...	4,000	0	0			
Horses, Carts, and Harness...	398	4	9			
Loose Tools, Utensils, and Furniture ...	147	12	2			
Wages	987	19	1			
Salaries	405	3	4			
Incidental Expenses	105	4	2			
Partners' Salaries	300	0	0			
Cash at Bank	785	15	7			
Cash in hand	45	17	10			
Bills Receivable	1,000	0	0			
Stock at December 31st, £3,000						
	£24,143	8	5	£24,143	8	5

From the above Trial Balance, prepare Trading and Profit and Loss Account and Balance Sheet, making provision for the following:—

Depreciation on Buildings, Fixed Machinery, and Plant at 5% per annum.
Accruing Incidental Expenses, £50.
Discount 5% on Debtors' Balances.
Loss on Debtors' Balances, £40.

The Nett Profit or Loss is divisible between the Partners in proportion to their Capital.

EXERCISE 96.

Summary of the Books of the Whitlands Textile Fabrics Co. Limited, December 31st, 1902.

	£
Sundry Creditors	98,000
Sundry Debtors	146,606
Owing to Bank	5,945
Cash	880
Bills Receivable	10,400
Bills Payable	12,200
Capital, 1,000 £100 Shares, £50 paid up	50,000
Reserve Fund, invested in Consols	2,000
Machinery	7,000
Warehouse Fixtures	420
Premises	18,000
Mortgage Loan on Premises	12,000
Stock, 31st Dec., 1902	9,000
Wages of Manufacture	30,000
Wages, Warehouse	7,200
Salaries	1,600
Cartage and Carriage	150
Discounts Allowed	750
,, Received	280
Interest	1,600
Incidental Expenses	944
Liability on Bills Discounted, but not yet matured	5,000
Sales	806,000
Purchases	740,000
Unpaid Dividends	555
Dressing and Dyeing	19,000
Insurance	150
Rates	280

Provide for a Dividend		7,500
Carry to Reserve Fund Account		2,000
Provide for Workpeople's Superannuation Fund		600
Write off Depreciation :—		
Premises	£500	
Machinery	700	
		1,200
Write off Bad Debts		1,000
Provide for Doubtful Debts		200
,, Rates and Taxes, outstanding		500

Prepare a Trading Account, Profit and Loss Account, and Balance Sheet, 31st December, 1902.

EXERCISE 97.

JOHN HALL & CO. LTD., DYERS.

TRIAL BALANCE, 31ST DECEMBER, 1900.

	£	s.	d.	£	s.	d.
Wages (including Mechanics, £217 15s. 9d.)	5,126	11	2			
Dyewares	2,815	6	9			
Sundry Materials	765	3	1			
Damages and Allowances	243	8	10			
Coal	823	1	1			
Horsekeep	169	11	1			
Repairs to Carts	23	10	0			
,, Machinery	194	7	6			
Trade Expenses	93	17	4			
Rates and Taxes	141	11	3			
Insurance	64	10	0			
Gas	57	15	3			
Water	92	4	7			
Discount Allowed	128	10	0			
,, Received				143	6	2
Rent Receivable				150	0	0
Sundry Sales:—Dyewares £25 0 0						
Horsekeep 13 0 0						
Old Machinery 10 0 0				48	0	0
Petty Cash in Hand	2	10	0			
Work Charged				13,215	6	5
,, in Progress, July 1st	1,623	4	3			
Machinery, July 1st	8,627	16	0			
,, Bought, October 1st	200	0	0			
Debentures, 4½%				15,000	0	0
Bank				3,461	16	10
Land and Buildings	20,000	0	0			
Cash in Hand	52	16	9			
Debtors	10,315	4	1			
Creditors				2,242	9	7
Share Capital				18,000	0	0
Horses and Carts	425	10	0			
Office Furniture	200	0	0			
Bank Interest and Charges	74	10	0			
	£52,260	19	0	£52,260	19	0

Work in Progress December 31st, £810 16s. 4d.
Stock of Dyewares, £120.
Reserve for Discount on Debts £300, and for Bad Debts £100.
Prepare Trading Account, Profit and Loss Account, and Balance Sheet.

EXERCISE 98.

On July 1st, 1895, Abraham Blew, Printer and Stationer, and William Yellow, proprietor of the "Little Peddlington Chronicle," agree to combine their businesses.

Their Assets and Liabilities are as follows :—

ABRAHAM BLEW. ASSETS.

	£	s.	d.	
Machinery	2,300	0	0	
Stock	1,879	15	3	
Fixtures and Fittings	152	12	6	
Bills Receivable	275	0	0	Rick.
Suspense Account	10	0	0	Difference in balancing.
Debtors.—Jackson	18	15	9	
Newton	52	7	4	
Turnor	3	18	7	
Reeve	199	11	5	
Wright	37	1	11	
Miss Sarah Blew, Loan on P/N at 5 %	100	0	0	
Cash at Bank	246	16	8	
Cash in Hand (paid to Bank July 1)	31	7	4	

LIABILITIES.

	£	s.	d.
Sir Joshua Pawson & Son	52	17	5
Waring & Co.	17	2	1
The Stationery Company	191	19	0
Marshall Bros....	18	14	6
Bills Payable—Phillips	100	0	0
Smithson	188	15	0

WILLIAM YELLOW. ASSETS.

	£	s.	d.	£	s.	d.
Plant	2,646	12	11			
Copyright	1,250	0	0			
Paper and Ink	175	16	5			
Sundry Debts Due	2,901	13	1			
Cash on hand (paid to Bank July 1) ...	24	5	6			

LIABILITIES.

	£	s.	d.
Owing to Bank	213	7	11
Loan from Mrs. Daisy Yellow at 4%	500	0	0
Star Paper Company	94	6	9
G. & F. Milthorp	111	11	11
Fargus & Sons...	24	18	3
Bills Payable—Remus Bros.	150	0	0
Borrass Ink Company	210	0	0

It is agreed that if the Newspaper Department yields a Profit, Yellow shall have one-half—the remainder and the Stationery Profit to be divided, Blew, $\frac{6}{13}$ths, Yellow, $\frac{7}{13}$ths. Losses shall be divided in the following proportions, viz.:—Yellow $\frac{7}{13}$ths, Blew $\frac{6}{13}$ths.

The firm's transactions from July 1st to September 30th are appended. Journalise, post Ledger, prepare Trial Balance, Profit and Loss Account, and Balance Sheet.

Each Partner to be entitled to a Salary of £300 per annum before Profits are ascertained.

All payments are made by cheque, and all receipts go direct into Bank.

1895.		£	s.	d.	
July.—Cash from Jackson	... ...	18	0	0	Discount 15/9
News, Sundry Debtors pay	...	389	14	3	
Paid Fargus & Sons	... ...	24	5	9	Discount 12/6
Rick's Bill discounted, nett proceeds	... ...	269	18	2	
Wright paid	... ...	36	10	0	Discount 11/11
Accepted Stationery Co.'s Bill	...	181	19	0	
Discovered Clerk's Error in Ledger, addition of Stationery Co.'s a/c.	... ...	10	0	0	
Paid Wages for Month	... ...	362	14	7	Charge $\frac{3}{5}$ to News.
Advertisement Cash Sales	...	15	2	9	
News Cash Sales	... ...	53	19	2	
Aug.—Bought Stationery Goods from Whitfield's, Ltd.	... ...	79	11	4	
Paid Sir Joshua Pawson & Sons	...	50	0	0	
Allowance for Overcharge	...	1	11	0	Pawson.
Discount	... ...	1	6	5	
News, Sundry Debtors pay	...	516	2	1	
Remus Bros.' Bill Met	... ...	150	0	0	
Newton Paid on Account	... ...	22	7	4	
News Cash Sales	... ...	84	16	3	
Advertisement Cash Sales	...	19	2	7	
Received Reeve's Acceptance	...	200	0	0	
Paid him	... ...	0	8	7	
Paid Wages for Month	... ...	396	5	0	Charge $\frac{7}{15}$ to News.

Sept.—Patent Linotype Machine, valued at £200, broke down.

Cheque to Waring & Co. £16 13s. 6d., deducting 2½%. They write disallowing the discount as Account is overdue, and charge 5% per annum interest for two months on their Account.

		£	s.	d.	
Paid Waring & Co.	... ...	0	11	4	
Sundry Debtors pay	... ...	627	14	9	Stationery.
Turnor paid	... ...	3	17	6	Discount 1/7
Acceptance to Phillips met	...	100	0	0	
Cash News Sales	... ...	91	10	4	
Cash Advertisement Sales	...	23	15	7	
Printing done by Newspaper for Stationery business	... ...	128	19	0	

	£	s.	d.	
Paid for Repairing Linotype Machine	50	0	0	
Paid Wages for Month	422	4	6	Charge ⅛ to News.
Bought of Holroyd & Son for Stationery	287	15	3	
Bought of Star Paper Co. for News	683	4	7	
Linotype Machine again broke down, and was sold for ...	75	0	0	Cash received.
Credit Sales for Advertising ...	563	4	8	
,, for Newspapers ...	409	7	3	
,, for Subscribers ...	20	19	0	
Discounted Reeve's acceptance for	195	0	0	
Credit Sales, Stationery	770	7	7	
Each Partner withdraws... ...	100	0	0	

Rent of Newspaper Premises, £300 per annum, to charge.
,, Stationery ,, £200 ,, ,,
2½% Bonus on Stationery Sales (to Foreman).
Rates owing for Newspaper, £27; Stationery, £19.
Write off £58 16s. 2d. News Book Debts as bad.
Reserve £40 on News for Probable Bad Debts.
,, £30 on Stationery ,, ,,
,, 10% on News Book Debts for Discount.
,, 5% on Stationery ,, ,,
Write off Loss on Linotype.
Depreciate News Machinery 2½% per annum.
,, Stationery ,, 5% ,,
Depreciate Fixtures and Fittings, £22 12s. 6d.
Stock—News, £47 12s. 0d.
,, Stationery, £1,523 4s. 9d.
The Partners have had nothing on a/c of Salary.

EXERCISE 99.

The Khaki Manufacturing Company, Ltd., commenced business 1st January, 1900. On 30th June, 1900, the Trial Balance stands as follows:—

	£	s.	d.	£	s.	d.
4½% First Mortgage Debenture Stock ...				5,000	0	0
1,000 6% Preference Shares, £5 each ...				5,000	0	0
100 Ordinary Shares, £50 each				5,000	0	0
Machinery, Plant, and Fixtures	3,140	0	0			
Sales				31,028	15	0
Bad Debts	120	0	0			
Discounts Received				520	0	0
Wages	7,304	0	0			
Advertising	95	0	0			
Cash	35	0	0			
Debenture Interest paid	112	10	0			
Engine and Boiler	900	0	0			

	£	s.	d	£	s.	d.
Materials Consumed	18,500	0	0			
Stock of Materials on hand 30th June, 1900	1,450	0	0			
Sundry Debtors	6,256	5	0			
Electric Light Installation	250	0	0			
Trade Expenses	260	0	0			
Cards, Bobbins, Gears, &c.	650	0	0			
Office Furniture	100	0	0			
Repairs...	250	0	0			
Discount Allowed	820	0	0			
Travellers' and Office Salaries	420	0	0			
Bankers'	789	0	0			
Carriage	350	0	0			
Cottage Rents Received				39	0	0
Rates and Insurance	130	0	0			
Sundry Creditors				2,100	0	0
Commission	400	0	0			
Returns Inwards	200	0	0			
Stationery and Postage	36	0	0			
Fuel	420	0	0			
Land and Buildings	7,700	0	0			
	£48,687	15	0	£48,687	15	0

Include Reserve for Discount on Debtors' balances £200, and for Bad Debts £100. The following sums are owing:—Rates, £50; Commission, £100. Charge Depreciation at the following rates per annum:—Engine and Boiler, 10%; Machinery, &c., 7½%; Cards, Bobbins, &c., 40%; Office Furniture, 5%; Electric Light Installation, 20%. Prepare Profit and Loss Account and Balance Sheet, providing the Preference Dividend, £10 per share Ordinary Dividend, and £250 to General Reserve Fund Account.

EXERCISE 100.

John Jones & Sons, Limited, have a Nominal Capital of 2,375 Ordinary Shares of £10 each and 4,000 6% Preference Shares of £10 each, and a Subscribed Capital of 1,370 Ordinary Shares and 1,970 Preference Shares (both fully paid), and have issued £22,000 First 4% Mortgage Debenture Stock, £2,600 Second 5% ditto, and placed with the Bankers as security for overdraft £20,000 Third 6% ditto. The issue of these Debenture Stocks costs £2,280, which they are writing off by equal amounts spread over ten years. From their leasehold property they write off £220 per annum. They write off annually for depreciation of plant, machinery, and furniture 10%, and provide for bad and doubtful debts by a deduction of 5% from their debtors. Their stock on hand on 31st December, 1899, was £16,800. On 30th June, 1899, they paid half a year's interest on Debentures and Preference Shares, and an interim dividend for the half-year on the Ordinary Shares at the rate of 10% per annum. On 31st December, 1899, they extracted from their Books the following:—

TRIAL BALANCE.

	£	s.	d.	£	s.	d.
Freehold Property	15,345	0	0			
First Mortgage Debentures, 1st Jan., 1899				*		
Second ,, ,, ,, ...				*		
Stock and Materials, 1st Jan., 1899 ...	11,211	0	0			
Subscribed Capital				*		
Purchases	38,799	0	0			
Rent of Sub-lets				300	0	0
Discounts (balance)				15	0	0
Wages	15,331	0	0			
Leasehold Property, 1st Jan., 1899 ...	13,600	0	0			
Sales				63,246	0	0
Trade Expenses	308	0	0			
Carriage and Horsekeep	1,131	0	0			
Sundry Creditors				2,485	0	0
Bankers				20,915	0	0
Petty Cash Payments	397	0	0			
London Show-rooms and Office Expenses...	615	0	0			
Agents' Commission...	299	0	0			
Rent, Rates, Taxes, Gas, Water, and Insurance	737	0	0			
Salaries...	1,440	0	0			
Sundry Debtors	20,500	0	0			
Furniture and Fixtures	370	0	0			
Debenture Expenses Suspense, 1st Jan., 1899	1,822	0	0			
Bad and Doubtful Debts Provision, 1st Jan., 1899...				750	0	0
Bad and Doubtful Debts	85	0	0			
Repairs to Property	95	0	0			
Bank Interest and Commission	994	0	0			
Debenture Interest, 30th June, 1899 ...		*				
Debenture Insurance	245	0	0			
Law Charges	350	0	0			
Directors' Fees	450	0	0			
Preference Dividend Account, 30th June, 1899...		*				
Ordinary Share Interim Dividend Account		*				
Auditors' Fees	100	0	0			
Plant and Machinery, 1st Jan., 1899 ...	22,230	0	0			
Profit and Loss Account, 1st Jan., 1899 ...				2,524	0	0

* Find the figures for these items from particulars stated at commencement.

Raise Trading and Profit and Loss Account, and Balance Sheet. From the Balance at credit of Profit and Loss Account provide for the payment of the interest upon the Preference Shares, a declaration of a dividend for the year on the Ordinary Shares at 15 per cent. (taking into account the interim dividend paid), and a transfer of £2,000 to a Reserve Account, and shew a balance of Profit and Loss carried forward.

(Institute of Chartered Accountants: Examination Paper).